



1997

S Corporation Tax Booklet

Members of the Franchise Tax Board

Kathleen Connell, Chair
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Do you need help? 1-800-338-0505



F.A.S.T

Most of your questions can be answered by reading the instructions in this booklet. But if you find that you need help, use our **F.A.S.T. (Fast Answers about State Taxes)** toll-free phone service available 24 hours a day. If you cannot get the answer you need, call our general toll-free phone service listed on page 39. The best times to call are between 7:00 a.m. and 10:00 a.m. and between 6:00 p.m. and 8:00 p.m.



**State of California
Franchise Tax Board**

Instructions for Form 100S

California S Corporation Franchise or Income Tax Return

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1997**, and to the California Revenue and Taxation Code (R&TC).

Tax Law Changes

Due to California legislation enacted in 1997, California tax law conforms to the IRC as of January 1, 1997 and to selected provisions of the Federal Taxpayer Relief Act of 1997 (Public Law 105-34). Also, legislation enacted in October 1997, conforms, with certain exceptions, to the changes made to the Subchapter S provisions of the IRC by the federal Small Business Job Protection Act (SBJPA) of 1996 (P.L. 104-188). Specific provisions of conformity and non-conformity are identified when appropriate.

Qualified Subchapter S Subsidiaries (QSSSs)

California has conformed to the changes made to the Subchapter S provisions of the IRC which allow S corporations to own subsidiaries. A QSSS is a domestic corporation that is not an ineligible corporation (i.e. must be eligible to be an S corporation). In addition, 100% of the stock of the subsidiary must be held by the S corporation parent and the parent must elect to treat the subsidiary as a QSSS. The QSSS is not treated as a separate corporation and all assets, liabilities and items of income, deduction and credit of the subsidiary are treated as belonging to the parent. An election made by the parent S corporation under IRC Section 1361(b)(2) to treat the corporation as a qualified subchapter S subsidiary for federal purposes is treated as a binding election for California purposes. A separate election cannot be filed for California. The QSSS annual tax is paid by the S corporation parent. For California purposes, a QSSS is subject to an \$800 annual tax. The annual tax is due on the 15th day of the 4th month of the income year of the S corporation, and may be paid with the first estimated tax payment of the S corporation. Get Form 100-ES instructions for more information.

California Qualified Stock Options

Federal law regarding incentive stock options is modified by California law to provide that the gain from the exercise of California Qualified Stock Options (CQSOs) issued and exercised after 1996 and before 2002, can be excluded from gross income if the individual's earned income is \$40,000 or less. The exclusion from gross income is subject to the alternative minimum tax and the corporation is not allowed a deduction for the compensation excluded from the employee's gross income.

Inadvertent Invalid Elections and Terminations

California did not completely conform to the inadvertent or invalid election or termination provisions of the SBJPA (P.L. 104-188). For California purposes, the Franchise Tax Board (FTB) will allow an S corporation to correct an inadvertent or invalid election only for income years beginning on or after January 1, 1997, in specified circumstances as provided in current federal law. If a federal determination has been made regarding an invalid election

allowing the corporation to be an S corporation for federal purposes prior to January 1, 1997, the corporation will automatically be considered an S corporation for state purposes for its first income year beginning on or after January 1, 1997, but not before that date.

Treatment of S Corporations Under Subchapter C

California conforms to federal law which allows an S corporation in its capacity as a shareholder of another corporation to be treated as a corporation and not an individual for purposes of applying IRC Sections 332, 337 and 338. In addition, an election made for federal purposes to treat certain stock purchases as asset acquisitions (or not electing to do so) is binding for state purposes.

Electing Small Business Trusts

An election made by the trustee for federal purposes under IRC Section 1361 to be an electing small business trust that may hold stock in an S corporation is treated as an election for California purposes. A separate election cannot be filed for California. The election cannot be revoked without the consent of the Franchise Tax Board (FTB). The tax imposed on the trust is the highest rate of tax applicable to an individual under R&TC Section 17041(a).

Change in Accounting Method From Bad Debt Reserve for Banks, Savings & Loan Associations and Financial Corporations

If the corporation is a financial corporation, savings and loan or a bank, it can no longer use the bad debt reserve method of accounting and elect to be, or continue to be, an S corporation for income years beginning on or after January 1, 1997. However, the S corporation status can be maintained or elected if the corporation changes accounting method from the bad debt reserve method to the specific write-off method.

If the following conditions are met, file federal Form 3115, Application for Change in Accounting Method with the FTB, in order to obtain or maintain S corporation status for income years beginning on or after January 1, 1997. The corporation is:

- **A savings and loan organization or a bank** that has elected federal S corporation status for the first time for income year 1997, and has been using the bad debt reserve method of accounting for California purposes; or
- **A financial corporation**, that has been an S corporation for California purposes or has elected federal S corporation status for the first time in 1997, and has been using the bad debt reserve method of accounting for California purposes.

This change in method is given deemed consent by the FTB, and is effective for income years beginning on or after January 1, 1997.

Attach a copy of the federal Form 3115 to Form 100S when filed. For more information see FTB Notice titled "S Corporations — Change in Accounting Method From Bad Debt Reserve for Banks, Savings & Loan Associations, and Financial Corporations." (FTB Notice number not available at the time this booklet went to press.)

Note: If an S corporation continues using the bad debt reserve method of accounting, it becomes an ineligible corporation, and S corporation status terminates for income years beginning on or after January 1, 1997. The penalty for underpayment of estimated tax will not be assessed if the underpayment is due solely to the change in corporation status and the corporation pays its total tax liability by the due date of the return (Senate Bill 455 Ch. 97-611).

California conforms to federal law for the following provisions for income years beginning on or after January 1, 1997:

- Federal information return Form 5471 is required to be filed for California. The penalty for failure to file this form as required is \$1,000 per form.
- The gain from the sale of publicly traded securities can be rolled over into specialized small business investment companies.
- Substantiation is required for charitable contribution deductions. Also, charitable organizations must provide disclosure for quid pro quo contributions. Showing that federal requirements have been met satisfies California requirements.
- The mark to market accounting method is required for securities dealers. The change in method of accounting must be taken into account ratably over five years beginning with the first income year beginning on or after January 1, 1997.
- The modifications made to the IRC for the accuracy related penalty by P.L. 103-66 and P.L. 103-465 apply for California purposes for information returns filed for income years beginning on or after January 1, 1997.
- Modifications to the substantial understatement penalty for corporations participating in tax shelters apply.
- For property held by a corporation, where stock in the corporation is replacement property, a basis adjustment is required under the involuntary conversion rules.
- An abandonment loss is allowed at the termination of a lease for lessor improvements.
- The income forecast method may be used to compute the depreciation deduction.
- IRC Section 1237(a)(2)(A) relating to real property that is subdivided.
- The classification of a business entity as an association, partnership or disregarded entity is made under rules consistent with the federal "check the box" regulations. In most cases, the classification of an entity

must be the same for California purposes as for federal purposes. If the corporation filed federal Form 8832, attach a copy to the Form 100S when filed. An exception is made for business trusts and single member LLCs that are classified as partnerships for federal purposes for income years beginning prior to January 1, 1997. See instructions for Form 100, California Corporation Franchise or Income Tax Return, for guidance on making the election to be classified the same as federal for income years beginning on or after January 1, 1997. A business entity that is classified as an association is treated as a corporation for combined reporting purposes, and is taxable as a corporation under Chapter 3 of the California R&TC. Final California regulations regarding entity classification are expected to be approved in late 1997.

California law does not conform to federal for the following:

- Accelerated depreciation for property on Indian Reservations is not allowed for state purposes.
- Grapevines planted as a replacement for vines subject to Pierce's Disease may be depreciated using a useful life of five years, not ten years.
- Federal modifications to the AMT depreciation rules relating to the ACE adjustment for corporations.
- The AMT treatment of contributions of appreciated property.
- The elimination of the deduction for club membership fees. Also, California law does not conform to the disallowance of the deduction for employee remuneration in excess of \$1 million.
- The federal provisions disallowing the deduction for lobbying expenses. The expense is still deductible for California purposes.
- The treatment of Subpart F and Section 936 income for taxpayers using the annualized method.
- The IRC passive activity loss rules for real estate activities.

California law changes effective for Income Years Beginning On Or After January 1, 1997

Credit Limitations

For credits that include limitations, the limits apply at both the entity level and the shareholder level.

Expired Credit

Program areas were merged into Enterprise Zones. The Program Area Hiring and Sales or Use Tax Credit has expired. Carryovers of the credit may be reported on form FTB 3805Z, Enterprise Zone Deduction and Credit Summary. For business incentives from program areas passed through from 1996 fiscal year filers, get the 1996 FTB 3805Z, Enterprise Zone and Program Area Booklet for more information.

New Farmworker Housing Credit

A credit is allowed for 50% of the qualified amount of costs paid or incurred to construct or rehabilitate qualified farmworker housing.

Also, banks and financial corporations are allowed a credit for 50% of the foregone interest income on qualified farmworker housing loans. The credit is certified by the California Tax Credit Allocation Committee.

New Rice Straw Credit

A credit is allowed in an amount equal to \$15 per ton of rice straw grown in California that is purchased by an end user that is not related to the grower. The credit is certified by the Department of Food and Agriculture.

New Community Development Financial Institution Deposits Credit

A credit is allowed in an amount equal to 20% of each qualified deposit made by a taxpayer into a community development financial institution. The credit is certified by the California Organized Investment Network of the Department of Insurance.

Voluntary Disclosure

SB 38 (Ch# 96-954) expands California's Nexus (Voluntary Disclosure) Program to include S corporation shareholders.

Tax Prepayment for Qualified New Corporations

The prepaid minimum tax paid to the California Secretary of State (SOS) at the time of incorporation or qualification is \$600 for qualified new corporations. A qualified new corporation is a corporation that is incorporated in California or qualified with the California SOS and reasonably estimates it will have gross receipts, less returns and allowances, of \$1 million or less and a tax liability of \$800 or less during its income year. The commencing tax for the first income year is prepaid to the California SOS. If during the first income year the corporation's gross receipts exceed \$1 million or tax liability exceeds \$800, the corporation must pay an additional tax of \$200, to the FTB on the due date of its return, without regard to extension, for its first income year.

Estimate Payments

California R&TC Section 19147 has been amended to incorporate the federal expanded annualization periods for income years beginning on or after January 1, 1997. For income years beginning on or after January 1, 1998 the applicable percentage for estimate basis is 100%. Get the Form 100-ES instructions for more information.

Water's-Edge Qualifying Dividends Deduction

California R&TC Section 24411 generally allows for a 75% deduction for all qualifying dividends received, except that dividends resulting from specified construction projects are 100% deductible. Form FTB 2411 has been eliminated and the water's-edge dividend deduction is computed on Form 100S, Schedule H.

Interest Expense Deduction

For income years beginning on or after January 1, 1997, the amount of interest expense incurred for purposes of foreign investments that may be offset against deductible foreign dividends must be computed by multiplying the amount of interest expense by the same percentage used to compute the deductible portion of the qualifying foreign dividends.

Important Information

California Tax Forms on the Internet!

Do you need a California franchise or income tax form or publication? Do you have Internet access? If so, you may download, view and print 1994, 1995, 1996 and 1997 California tax forms, instructions and publications. Go to <http://www.ftb.ca.gov> for the California Franchise Tax Board (FTB) Home Page.

General Information

Form 100S is used if a corporation has elected to be a California small business corporation (S corporation).

All federal S corporations that are subject to California laws and that did not make a California C corporation election must file Form 100S and pay the greater of the minimum franchise tax or the 1.5% income or franchise tax. The tax rate for financial S corporations is 3.5%. However, under California law, if an S corporation has one or more shareholders who are nonresidents of California or trusts with nonresident fiduciaries, the S corporation must file form FTB 3830, S Corporation's List of Shareholders and Consents (included in this booklet). This list must include the names and social security numbers or federal employer identification numbers (FEIN) of all shareholders and each nonresident shareholder's or fiduciary's signed consent to be subject to California's jurisdiction to tax the shareholder's pro rata share of income attributable to California sources.

R&TC Section 23801(b)(3) authorizes the FTB to make a retroactive revocation of the S corporation status if the S corporation fails to meet the requirements outlined above.

The taxable income of the S corporation is calculated two different ways for two different purposes. First, it is calculated in the same manner as for C corporations, with certain modifications, for purposes of the 1.5% income or franchise tax. Second, it is calculated using federal rules for the pass-through of income and deductions, etc. for the purposes of pass-through to the shareholders.

Records Maintenance Requirements

Any taxpayer filing on a water's-edge or worldwide basis is required to keep and maintain records and make available upon request the following:

- Any records needed to determine the correct treatment of items reported on the worldwide or water's-edge combined report for purposes of determining the income attributable to California.
- Any records needed to determine the treatment of items as nonbusiness or business income.
- Any records needed to determine the apportionment factor.
- Any documents and information needed to determine the attribution of income to the U.S. or foreign jurisdictions under IRC Subpart F, IRC Section 882, or other similar provisions of the IRC.

A corporation may be required to authorize an agent to act on its behalf in response to

requests for information or records pursuant to R&TC Section 19504. For more information refer to R&TC Section 19141.6 and Title 18 Cal. Code Regs. Section 19141.6.

A Franchise or Income Tax

Corporation franchise tax

Entities subject to the corporation franchise tax include all S corporations:

- Incorporated in California; or
- Qualified to do business in California; or
- Doing business in California, whether or not incorporated or qualified under California law.

The tax must be prepaid for the privilege of doing business. It is measured by the income of the preceding income year for the privilege of doing business in the following taxable year. For purposes of these instructions, the term "income year" means taxable year for S corporations that are taxed under Chapter 3 of the Bank and Corporation Tax Law.

The term "doing business" means actively engaging in any transaction for the purpose of financial gain or profit.

Corporation income tax

The corporation income tax is imposed on all S corporations that derive income from sources within California but are not doing business in California.

For purposes of filing a corporation income tax return, the term "corporation" is not limited to incorporated entities, but also includes:

- Associations;
- Massachusetts or business trusts; and
- Real estate investment trusts.

B Tax Rate and Minimum Franchise Tax

The tax rate for S corporations that are subject to either the franchise or the income tax is 1.5%. The tax rate for certain capital gains, built-in gains and excess net passive income is 8.84%.

For income years ending on or after December 31, 1995, financial S corporations are required to use a rate of 2% above the S corporate rate (currently 1.5% or 8.84% for certain capital gains, built-in gains and excess net passive income). See R&TC Section 23186(f).

All S corporations subject to the corporation franchise tax and any S corporation "qualified" to do business in California must file Form 100S and pay at least the minimum franchise tax as required by law. The minimum franchise tax is \$800 and must be paid whether the S corporation is active, inactive, operates at a loss or files a return for a short period of less than 12 months.

There is no minimum franchise tax for:

- Corporations that derive income from sources within California but are subject only to income tax because they are not "doing business" in California, and are not incorporated or qualified under the laws of California (get FTB Pub. 1050, FTB Pub. 1060, or FTB Pub. 1063 for more information regarding "doing business");

- Credit unions;
- Exempt HOAs and PACs;
- Qualified non-profit farm cooperative associations;
- Exempt organizations; and
- Corporations that are not incorporated under the laws of California; whose sole activities in this state are engaging in convention and trade show activities for seven or fewer days during the income year; and do not derive more than \$10,000 of gross income reportable to this state during the income year. These S corporations are not "doing business" in California (get FTB Pub. 1060 for more information).

S corporations are not subject to the alternative minimum tax.

C Elections and Terminations

Elections

Corporations that elect federal S corporation status are deemed to have made a California S election on the same date as the federal election. These corporations must report the federal S election to the FTB using form FTB 3560, S Corporation Election or Termination/Revocation.

If a federal S corporation wants to be a California C corporation, it must elect such treatment using form FTB 3560. Only corporations incorporated or qualified to do business in California may make this election. Such an election is treated as a revocation of the California election and will be disregarded if not filed when due.

A federal S corporation that previously elected to be a California C corporation may elect to become a California S corporation unless the California S corporation status was terminated within the past 5 years. Use form FTB 3560 to make this election.

Terminations

A corporation may terminate its S corporation status by:

- Revoking the election (federal or state); or
- Ceasing to qualify as an S corporation; or
- Violating the passive investment income restrictions on corporations with earnings and profits.

An S corporation may terminate its S election for California, by revocation, without terminating its federal S election. (R&TC Sections 23801(a)(4)(A)(ii) or 23801(a)(4)(F)(i)). However, terminating the taxpayer's federal S election simultaneously terminates its California S election.

If the taxpayer terminates its S corporation status, short period returns are required for the S corporation short year and the C corporation short year, if applicable.

During the 5 years after the termination of the S corporation status, the taxpayer may not make another California S election unless the FTB consents.

For more information about elections and terminations, get form FTB 3560.

D Accounting Period and Method

The income year of the S corporation must not be different from the taxable year used for federal purposes, unless initiated or approved by the FTB (R&TC Section 24632).

A change in accounting method by an S corporation requires consent from the FTB. However, an S corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to make a change in its accounting method without prior approval, and does so, is deemed to have the FTB's approval if: (1) the S corporation files a timely Form 100S consistent with the change for the first year the change is effective, and (2) the change is consistent with California law. A copy of federal Form 3115, Application for Change in Accounting Method, and a copy of the federal consent to the change must be attached to Form 100S for the first year the change becomes effective. The FTB may modify requested changes if the adjustments would distort income for California purposes.

Note: California is not following the automatic consent procedure of Federal Revenue Procedure 96-31 for a change of accounting method involving previously unclaimed allowable depreciation or amortization. For more information get FTB Notice 96-3.

E When to File

File Form 100S no later than the 15th day of the 3rd month after the close of the income year unless the return is for a short period as required under R&TC Section 24634. See R&TC Section 18601(c) for the due date of the short period return. Farmer's cooperative associations must file Form 100S by the 15th day of the 9th month after the close of the income year.

For final returns, see General Information O and General Information P.

F Extension of Time to File

An S corporation that cannot file its California return by the 15th day of the 3rd month following the close of the income year may file on or before the 15th day of the 10th month without filing a written request for an extension, unless the corporation is suspended as of the original due date. This does not extend the time for payment. The full amount of tax must be paid by the original due date of Form 100S. If there is an unpaid tax liability on the original due date, get form FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations (included in this booklet) and send it with the payment by the original due date.

Note: If the corporation must pay its tax liability using Electronic Funds Transfer (EFT), all taxes due **must** be remitted by EFT to avoid penalties. Do not send form FTB 3539.

G Electronic Funds Transfer (EFT)

Corporations that meet certain requirements must remit all of their payments through EFT rather than by paper checks. Once a corporation remits an estimated tax payment or

extension payment in excess of \$20,000 or has a total tax liability in excess of \$80,000 in any income year beginning on or after January 1, 1995, the FTB will notify the corporation that all future payments must be made by EFT. Those that wish to participate on a voluntary basis may do so. For more information, call the FTB EFT Section at (916) 845-4025, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

H Where to File

If tax is due, and the corporation is not required to use EFT, make the check or money order payable to the Franchise Tax Board. Write the California corporation number and 1997 Form 100S on the check or money order. Mail the return and payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0501

Mail all other returns, including those with payment by EFT to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

I Net Income Computation

The computation of net income from trade and business activities generally follows the determination of taxable income as provided in the IRC. However, there are differences that must be taken into account when completing Form 100S. There are two ways to complete Form 100S.

Note: Regardless of the net income computation method used, the corporation must attach any form, schedule or supporting document referred to on the return, schedules or forms filed with FTB.

1. Federal reconciliation method

- Attach a copy of federal Form 1120S, Page 1, U.S. Income Tax Return for an S Corporation, and all pertinent supporting schedules, or transfer the information from federal Form 1120S, Page 1, onto Schedule F and attach all pertinent supporting schedules;
- Enter the amount of federal ordinary income (loss) from trade or business activities before any net operating loss (NOL) on Form 100S, Side 1, line 1; and
- Enter the state adjustments (including any adjustments necessary to report items not included in ordinary trade or business income or loss) on line 2 through line 14, to arrive at net income after state adjustments, Side 1, line 15.

See the specific line instructions for more information.

2. Schedule F – California computation

If the S corporation has no federal filing requirement, or if the S corporation maintains separate records for state purposes, complete Form 100S, Schedule F, Computation of Trade or Business Income, to determine state ordinary income. If ordinary income is computed under California laws, generally no state adjustments are

necessary. Transfer the amount from Schedule F, line 22, to Side 1, line 1. Complete Form 100S, Side 1, line 2 through line 14, only if applicable.

Substitution of federal schedules

S corporations may not substitute federal schedules for California schedules.

J Certain Capital Gains/Built-in Gains

For California purposes, when a C corporation elects to be an S corporation, certain items of gain or loss recognized in S corporation years are subject to the C corporation 8.84% tax rate instead of the S corporation 1.5% tax rate (financial S corporations add 2%).

Former IRC Section 1374 allowed a threshold amount in determining if the S corporation was subject to the 8.84% tax. However, former IRC Section 1374 was replaced by current IRC Section 1374, which does not allow the threshold amount and is applicable to other items of income in addition to capital gains.

Capital gains under former IRC Section 1374

Generally, S corporations that made the federal S election before January 1, 1987, or during 1987 or 1988 and are under the transitional relief rules applicable to built-in gains may be subject to a tax on capital gains (under former IRC Section 1374) for California purposes for certain sales or dispositions.

Based on former IRC Section 1374, a tax is imposed at 8.84% (or the financial C corporation tax rate) if:

- The S corporation is not subject to tax on the gain under the new built-in gains rules (see below);
- The excess of the net long-term capital gain over the net short-term capital loss is more than \$25,000;
- The excess is more than 50% of the corporation's taxable income; and
- The taxable income is more than \$25,000.

The capital gains tax under former IRC Section 1374 does not apply if the corporation was an S corporation during each of the preceding 3 years or for the entire period in the case of new corporations in existence for less than 4 years. However, see the instructions for federal Form 1120S, Schedule D, for rules applicable to certain carryover basis assets.

Built-in gains under current IRC Section 1374

For those S corporations that made the initial federal S election after December 31, 1986, certain income items reported by the S corporation are taxed at 8.84% (or the financial C corporation tax rate). This provision applies for a period of 10 years following the C corporation's election to become an S corporation. The amount of built-in gain that is taxed at 8.84% (or the financial C corporation tax rate) is the excess of recognized built-in gains over recognized built-in losses, limited by taxable income as determined under IRC Section 1374(d)(2)(A). The following items are treated as built-in gains subject to this tax:

- Accounts receivable of cash basis taxpayers from C corporation years;
- Long-term contract deferred income from C corporation years;
- Deferred income from installment sales made in C corporation years;
- Recapture of depreciation from C corporation years;
- Income from unreplaced Last-in, First-out (LIFO) inventory from C corporation years; and
- Any other income item that is attributable to C corporation years.

Note: For purposes of current IRC Section 1374, the effective date of any California S election made in 1987 and 1988 reverts back to the date of the federal S election if the corporation was previously a federal S corporation.

Transitional rules under IRC Section 1374

The Tax Reform Act of 1986, Act Section 633(d)(8), to which California conforms, provides special transitional relief from the built-in gains tax for qualified S corporations. A "qualified S corporation" is any S corporation that has an applicable value of \$10 million or less on August 1, 1986, all times thereafter and before the corporation is completely liquidated, and is more than 50% owned by 10 or fewer qualified persons. A "qualified person" is an individual, an estate or a trust that is described in IRC Section 1361(c)(2)(A)(ii) or (iii).

This transitional relief applies to qualified corporations that elected S corporation status after December 31, 1986, and before January 1, 1989. The relief is not available to an otherwise qualified S corporation in the case of the sale or distribution of capital assets held 6 months or less or in the case of the sale or distribution of assets which results in ordinary income (loss).

K Estimated Tax

Every S corporation, unless exempt by law, must pay estimated tax using Form 100-ES, Corporation Estimated Tax.

Generally, estimated tax is due and payable in 4 equal installments:

- The 1st payment is due on the 15th day of the 4th month of the income year (note that this payment may not be less than the minimum franchise tax, if applicable); and
- The 2nd, 3rd and 4th installments are due and payable on the 15th day of the 6th, 9th and 12th months, respectively, of the income year.

Note for first-time filers: The prepayment of tax made to the California SOS at the time of incorporation or qualification is for the privilege of "doing business" during the S corporation's first taxable year. **Do not** claim this prepayment as an estimated tax payment or credit against the tax liability shown on the return for the S corporation's first year.

The first tax return the corporation files reports the income of its first income year. The tax shown on that return is the tax for the privilege of doing business in the corporation's second taxable year.

California law has conformed to the federal expanded annualization periods for the computation of estimate payments. For income years beginning on or after January 1, 1998, the applicable percentage for estimate basis is 100%.

For more information, get the instructions for Form 100-ES.

Note: If the corporation must pay its tax liability using EFT, all estimate payments due **must** be remitted by EFT to avoid penalties.

Legislation enacted in October 1997 allows a corporation that has elected or will elect S corporation status for California purposes to request that a portion of its estimated tax payments be transferred to the personal income tax accounts of its shareholders. See Form 3833 for more information.

L Commencing S Corporations

Effective for income years beginning on or after January 1, 1997, the prepaid minimum tax for the first income year is \$600 for qualified new corporations. The commencing tax for the first income year is prepaid to the California SOS. A qualified new corporation is a corporation that is incorporated in California or qualified with the California SOS and reasonably estimates for the income year that it will have **both** (1) gross receipts less returns and allowances reportable to California of \$1 million or less, and (2) tax on net income that does not exceed \$800. If during the first income year the corporation's gross receipts exceed \$1 million or tax on net income exceeds \$800, then an additional tax amount of \$200 shall be due on the **original** due date of its return for the first income year.

The tax measured by the income in the first year of business (first income year) is for the privilege of "doing business" during the second year.

If the first income year is for a short period of less than 12 months or if the S corporation is inactive during the first income year, pay at least the minimum franchise tax by the first estimate installment due date, and file Form 100S by the due date.

For more information, get FTB Pub. 1060, Guide for Corporations Starting Business in California.

M Penalties

Failure to file a timely return

Any S corporation that fails to file Form 100S on or before the extended due date is assessed a penalty. The penalty is 5% of the unpaid tax for each month, or part of the month, the return remains unfiled from the due date of the return until filed. The penalty may not exceed 25% of the unpaid tax. If the corporation does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return.

Failure to pay total tax by the due date

Any S corporation that fails to pay the total tax shown on Form 100S by the original due date is assessed a penalty. The penalty is 5%

of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months) the tax remains unpaid. This penalty may not exceed 25% of the unpaid tax.

Note: If an S corporation is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be assessed, but the total will not exceed 25% of the unpaid tax.

Underpayment of estimated tax

Any S corporation that fails to pay, pays late or underpays an installment of estimated tax is assessed a penalty. The penalty is a percentage of the underpayment for the underpayment period.

Get form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the amount of underpayment and the amount of penalty.

Note: If the S corporation uses Exception B or Exception C to compute or eliminate any of the four installments, form FTB 5806 must be attached to **the front of** Form 100S.

Information reporting penalties

Certain domestic corporations that are 25% or more foreign-owned and foreign corporations engaged in a U.S. trade or business, must attach federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, to Form 100S. The penalty for failing to include Form(s) 5472 as required is \$10,000 per required form for each year the failure occurs. See R&TC Section 19141.5.

If the S corporation does not file the Form 100S by the due date or extended due date, whichever is later, copies of federal Form(s) 5472 must still be filed on time or the penalty will be imposed. Attach a cover letter to the copies indicating the taxpayer's name, California corporation number and income year. Mail to the same address used for returns without payments. See General Information H. When the S corporation files Form 100S, also attach copies of the federal Form(s) 5472.

For income years beginning on or after January 1, 1997, U.S. taxpayers who have an ownership interest in (directly or indirectly) a foreign corporation and were required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(s) to the California return. A penalty for failure to include a copy of federal Form(s) 5471 as required is \$1,000 per required form for each year the failure occurs. The penalty applies for income years beginning on or after January 1, 1998. The penalty will not be assessed if the taxpayer provides a copy of the form(s) within 90 days of request from the FTB and the taxpayer agrees to attach a copy(s) of Form 5471 to all returns filed for subsequent years.

Secretary of State penalty

The California Corporations Code requires the FTB to assess a penalty for failure to file an

annual statement of corporate officers with the California SOS. See R&TC Section 19141.

For more information, contact the:

CALIFORNIA SECRETARY OF STATE
PO BOX 944230
SACRAMENTO CA 94244-2300
Telephone: (916) 657-3537

EFT Penalty

If the S corporation must pay its tax liability using electronic funds transfer (EFT), all payments must be remitted by EFT to avoid penalties. The EFT penalty is 10% of the amount not paid by EFT. For more information, see General Information G.

Accuracy and fraud related penalties

California conforms to IRC Sections 6662 through 6665 that authorize the imposition of an accuracy-related penalty equal to 20% of the related underpayment and the imposition of a fraud penalty equal to 75% of the related underpayment.

Other penalties

Other penalties may be imposed for a check returned for insufficient funds, non-U.S. foreign corporations operating while forfeited or without qualifying to do business in California and domestic corporations operating while suspended in California.

For more information, see R&TC Sections 19011, 19134, 19135, 19141.5 and 19164.

N Interest

Interest is due and payable on any tax due if not paid by the original due date of Form 100S. Interest is also due on some penalties. The automatic extension of time to file Form 100S does not stop interest from accruing. California follows federal rules for the calculation of interest. For more information, get FTB Pub. 1138, Refund/Billing Information.

O Dissolution/Withdrawal

The franchise tax for the period in which the S corporation formally dissolves or withdraws is measured by the income of the year in which it ceased doing business in California, unless such income has already been taxed at the rate prescribed for the taxable year of dissolution or withdrawal.

An S corporation that is a successor to a corporation that commenced doing business in California before January 1, 1972, is allowed a credit that may be refunded in the year of dissolution or withdrawal. The amount of the refundable credit is the difference between the minimum franchise tax for the corporation's first full 12 months of doing business and the total tax paid for the same period.

To claim this credit, enter the amount on line 33. To the left of line 33, write "Dissolving/Withdrawing."

The return for the final taxable period is due on or before the 15th day of the 3rd full month following formal dissolution or withdrawal.

For more information, get FTB Pub. 1038, Guide for Corporations Dissolving, Surrendering (Withdrawing) or Merging.

Samples and forms for a dissolution, surrender or merger agreement filing may be obtained by addressing your request to:

ATTN: LEGAL REVIEW
CALIFORNIA SECRETARY OF STATE
1500 11TH ST 3RD FLOOR
SACRAMENTO CA 95814-5701

P Ceasing Business

Because the corporation franchise tax is a prepaid tax, a special tax computation is necessary when an S corporation ceases to do business. The tax for the final year in which the S corporation does business in California is:

- The tax measured by the income of the preceding year; PLUS
- The tax measured by the income of the year in which the corporation ceases to do business; PLUS
- The tax due on unreported income attributable to installment obligations.

The tax due must be at least the minimum franchise tax. Generally, the S corporation will remain subject to the minimum franchise tax for each year it is in existence until it files a certificate of dissolution or withdrawal with the California SOS. For more information, see General Information O and R&TC Sections 23331 through 23335.

Q Suspension/Forfeiture

If an S corporation fails to file Form 100S and/or fails to pay any tax, penalty or interest due, its powers, rights and privileges may be suspended (in the case of a domestic S corporation) or forfeited (in the case of a foreign S corporation).

S corporations that operate while suspended or forfeited are subject to a \$2,000 penalty per income year, which is in addition to any tax, penalties and interest already accrued. Also, any contracts entered into during suspension or forfeiture are voidable at the request of any party to the contract other than the suspended or forfeited corporation.

Such contracts will remain voidable and unenforceable unless the S corporation applies for relief from contract voidability and the FTB grants relief.

For more information, see R&TC Sections 19135, 19719, 23301, 23305.1 and 23305.2.

R Apportionment of Income

S corporations with business income attributable to sources both within and outside of California are required to apportion such income. To calculate the apportionment percentage, use Schedule R, Apportionment and Allocation of Income. Be sure to answer Question P on Form 100S, Side 2.

Note: A corporation that has made a valid election to be treated as an S corporation is generally not included in a combined report. However, in some cases, the FTB may use combined reporting methods to clearly reflect income of an S corporation (R&TC Section 23801(d)(1)).

S Excess Net Passive Investment Income

California conforms to IRC Section 1375 for income years beginning on or after January 1, 1987. If an S corporation does not have excess net passive investment income for federal purposes, then the S corporation will not have excess net passive investment income for California purposes.

If at the close of the income year, an S corporation has undistributed earnings and profits (defined in IRC Section 1362(d)(3)) from previous years as a C corporation and has passive investment income that represents more than 25% of total gross receipts, then the S corporation may be subject to a tax on the excess net passive investment income (R&TC Section 23811).

T Water's-Edge Reporting

To make the water's-edge election, an S corporation must enter into a contract with the FTB by filing Form 100-WE, Water's-Edge Contract. For the election to be valid for any income year, Form 100-WE must be signed and attached to the original Form 100S. A copy must be attached to all subsequent returns filed during the contract period.

In consideration for being allowed to file on a water's-edge basis, the S corporation must, among other things:

- File returns on a water's-edge basis for a period of 84 months;
- Agree to business income treatment of dividends received from certain corporations; and
- Consent to the taking of certain depositions and the acceptance of subpoenas duces tecum requiring the reasonable production of documents.

Water's-edge returns must have form FTB 2426, Water's-Edge Cover Sheet, attached to the **front** of Form 100S.

For more information and the required forms, get Form 100-WE, Water's-Edge Booklet.

U Amended Return

To correct or change Form 100S, file the most current Form 100X, Amended Corporation Franchise or Income Tax Return. Using the incorrect form may delay processing of the amended return. If the Internal Revenue Service (IRS) examined and changed the S corporation's federal return or if the S corporation filed an amended federal return, file Form 100X within six months of the final federal determination.

V Information Returns

Every S corporation engaged in a trade or business and making or receiving certain payments in the course of the trade or business is required to file information returns which report the amount of these payments.

Payments that must be reported include, but are not limited to, compensation for services not subject to withholding, commissions, fees, prizes and awards, payments to independent contractors, rents, royalties and pensions

exceeding \$600 annually, interest and dividends exceeding \$10 annually, and cash payments over \$10,000 received in a trade or business. Payments of any amount by a broker or barter exchange must also be reported.

S corporations must report payments made to California residents by providing copies of federal Form 1099. Reports must be made for the calendar year and are due to the IRS no later than February 28th of the year following payment. S corporations must also submit federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

W Net Operating Loss (NOL)

Carryover periods varying from 5 to 15 years and carryover deductions varying from 50% to 100% are allowed for NOLs sustained by qualified corporations for income years beginning on or after January 1, 1994.

R&TC Sections 24416, 24416.1, 24416.2, 24416.3 and 25108 provide for NOL carryovers incurred in the conduct of a trade or business.

R&TC Section 24347.5 provides special treatment for the carryover of disaster losses incurred in an area designated by the President of the United States or the Governor of California as a disaster area.

For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations (included in this booklet), or get form FTB 3805Z, Enterprise Zone Business Booklet, form FTB 3806, Los Angeles Revitalization Zone Booklet and form FTB 3807, Local Agency Military Base Recovery Area Booklet.

X At-Risk Rules

California S corporations are subject to IRC Section 465 relating to the at-risk rules. For more information, see federal Form 6198, At-Risk Limitations. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

Y Passive Activity Loss Limitation

California S corporations follow IRC Section 469 and the regulations thereunder that allow losses from passive activities to be applied only against income from passive activities.

California differs from federal law in that rental real estate activities of taxpayers engaged in a real property business are still treated as a passive activity.

California law also differs from federal law in that the passive activity loss rules are applied at both the S corporation level and at the shareholder level. The passive activity loss rules must be applied in determining the net income of the S corporation that will be taxed using the 1.5% tax rate. Subsequent to the income and deductions flowing through to the shareholders, the rules are again applied in determining the net income of the shareholder. Treatment at the shareholder level is

the same as the federal treatment prior to January 1, 1994.

The passive activity loss rules apply to the S corporation as if it were an individual (i.e., losses from passive activities may not be used to offset other income, except for \$25,000 in losses from rental real estate). However, when determining whether the S corporation materially participates in the activity, the material participation rules that apply to a "closely held C corporation" should be applied to the S corporation. For more information, see IRC Section 469(h)(4).

S corporations must use form FTB 3801, Passive Activity Loss Limitations, to figure the allowable net loss from passive activities.

Z Passive Activity Credits

S corporation credits subject to the passive activity credit limitation rules include:

- Research credit;
- Orphan drug credit carryover; and
- Low-income housing credit.

Get form FTB 3801-CR, Passive Activity Credit Limitations, for more information.

AA Tax Credits

If a C corporation had unused credit carryovers when it elected S corporation status, the carryovers were reduced to 1/3 and transferred to the S corporation. The remaining 2/3 were disregarded. The allowable carryovers may be used to offset the 1.5% tax on net income in accordance with the respective carryover rules. These C corporation carryovers may not be passed through to shareholders. Refer to Schedule C (100S), S Corporation Tax Credits, included in this booklet.

S corporations may generate credits from both the Bank and Corporation Tax Law and the Personal Income Tax Law. Follow the guidelines below:

- If a credit listed on page 8 is allowed only under the Bank and Corporation Tax Law, 1/3 of the credit may be used to offset tax or may be carried over, if allowed. The remaining 2/3 must be disregarded and may not be carried over, and no part of the credit may be passed through to the shareholders; or
- If the credit is allowed only under Personal Income Tax Law, the full credit may be passed through to the shareholders, and no part may be used by the S corporation; or
- If a credit is allowed under both the Bank and Corporation Tax Law and Personal Income Tax Law, the S corporation may use 1/3 of the credit to offset tax or to be carried over, if allowed. The remaining 2/3 must be disregarded and may not be carried over. The full amount of the credit, as calculated under the Personal Income Tax Law, may also be passed through to the shareholders.

Credits and credit carryovers may not reduce the minimum franchise tax, the QSSS annual tax, built-in gains tax, excess net passive income tax, credit recaptures, the increase in tax imposed for the deferral of installment sale

income, or an installment of LIFO recapture tax.

BB Group Nonresident Shareholder Return

Nonresident shareholders of an S corporation doing business in California may elect to file a group nonresident return on Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. For more information, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR

Specific Line Instructions

Filing Form 100S without errors will expedite processing. Before mailing Form 100S, make sure entries have been made for:

- California corporation number (7 digits);
- Federal employer identification number (FEIN); and
- Corporation name and address.

Note: Enter income year beginning and ending dates if the return is for a short year or a fiscal year. If the S corporation reports its income using a calendar year, leave blank. If the return is filed for a short period (less than twelve months), write "short year" in red in the top margin. Convert all foreign monetary amounts to U. S. dollars.

Caution: California law is different from federal law. California taxes S corporations under Chapter 2 (commencing with Section 23101) or Chapter 3 (commencing with Section 23501) of the Bank and Corporation Tax Law.

Questions A through Q

Answer all applicable questions. Be sure to answer questions E through Q on Side 2. Note the following instructions when answering:

Question B – Transfer or acquisition of voting stock

All S corporations **must** answer Question B. If the answer is "Yes", a "Statement of Change in Control and Ownership of Legal Entities" (PT-100-B) must be filed with the State Board of Equalization, or substantial penalties may result. Forms and information may be obtained from the Board of Equalization at (916) 323-5685.

Answer "yes" to Question B on Side 1 if:

- The percentage of outstanding voting shares of this S corporation or its subsidiary(ies) owned by **one** person or **one** entity cumulatively surpassed 50% during this year; or
- The total of voting shares transferred to **one** irrevocable trust cumulatively surpassed 50% this year; or
- One or more irrevocable proxies transferred voting rights to more than 50% of the outstanding shares to **one** person or **one** entity during this year; or
- This S corporation's cumulative ownership or control of the stock or other ownership interest in any legal entity surpassed 50% during this year; or
- Cumulatively more than 50% of the total outstanding shares of this S corporation

have been transferred or changed ownership or control this year.

R&TC Section 64(e) requires this information for use by the California State Board of Equalization.

Question C – Principal business activity code

All S corporations **must** answer Question C.

Using the list found on page 22, enter the code number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California code number may be different from the federal code number. Use code 8980 only if the corporation's industry group is not shown.

Question D – Does this return include Qualified Subchapter S Subsidiaries (QSSSs)?

Answer yes if the S Corporation owns a QSSS. Refer to the instructions for line 22 and line 35 to report the QSSS annual tax. Be sure to complete the worksheet on page 15 of this booklet and attach the worksheet to Form 100S when filed.

Question E – 1998 Tax Forms

If the S corporation's return is prepared by someone else, or if the S corporation does not need Form 100S mailed to it next year, check the box at Question E.

Line 1 – Ordinary income (loss) from trade or business

S corporations using federal reconciliation to figure net income (see General Information I) must:

- Transfer the amount from federal Form 1120S, line 21 to line 1 and attach a copy of the federal return and all pertinent supporting schedules; or copy the information from federal Form 1120S, Page 1, onto Side 2, Schedule F and transfer the amount from Schedule F, line 22, to line 1.
- Then, complete Form 100S, Side 1, line 2 through line 14, State Adjustments.

S corporations using the California computation to figure ordinary income (see General Information I) must transfer the amount from Side 2, Schedule F, line 22, to line 1. Complete Form 100S, Side 1, line 2 through line 14, only if applicable.

Line 2 through Line 14 – State adjustments

To figure net income for California purposes, corporations using the federal reconciliation method (see General Information I) must enter California adjustments to the federal net income on line 2 through line 14. If a specific line for the adjustment is not on Form 100S, enter the adjustment on line 7, Other Additions, or line 13, Other Deductions, and attach a schedule.

Line 2 – Taxes not deductible

California law does not permit a deduction for California corporation franchise or income taxes or any other taxes on, according to, or measured by income or profits. Add these taxes to income on line 2. Examples of these taxes are California's minimum franchise tax, the 1.5% income or franchise tax and the

environmental taxes imposed by IRC Section 59A.

Line 3 – Interest on government obligations

S corporations subject to the California franchise tax must report interest received on government obligations even though it may be exempt from state or federal individual income tax. This interest must be added to income on line 3. See line 13 instructions for S corporations subject to the California corporation income tax.

Line 4 – Net capital gain

Enter on this line any net capital gain subject to the 1.5% tax rate (3.5% for financial S corporations) shown on Schedule D (100S), Section B, and any gains subject to the 8.84% tax rate (10.84% for financial S corporations) shown on Schedule D (100S), Section A, line 3a and line 6a.

Line 5 – Depreciation and Amortization

Depreciation for S corporations follows the depreciation rules provided under California Personal Income Tax Law. Complete Schedule B (100S) for assets subject to depreciation and for assets subject to amortization. Enter the total of Schedule B, Part I, line 4 and Part II, line 4, on Form 100S Side 1, line 5.

Line 6 – Portfolio income

Enter on this line net portfolio income not included in line 1 but that must be included in the S corporation's net income for computing the 1.5% tax. Include interest, dividends and royalties. Do not include any passive activity amounts on this line. Instead, include passive activity amounts on line 7 or line 13.

Line 7 – Other additions

Include on this line other items not added on any other line to arrive at California net income. Attach a schedule that clearly shows how each item was computed and explain the basis for the adjustment.

If a federal contribution deduction was taken in arriving at the amount entered on line 1, include that amount in the computation of line 7. See line 11.

Enter any passive activity income on line 7.

California ordinary net gain or loss

Before entering the amount from Schedule D-1, line 18, determine whether the gain is subject to built-in gains tax. If the gain is subject to built-in gains tax, enter the amount on Schedule D (100S), Part IV so the built-in gains tax can be computed, and enter the difference between the amount on Schedule D-1, line 18 and the amount subject to built-in gains tax on 100S, Side 1, line 7.

Note: Business expense deductions are not allowed with respect to payments to a club that restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin. "Club" means a club as defined in the Business and Professions Code, Div. 9, Ch. 3, Art. 4, beginning with Section 23425. Add back such deductions on this line.

Line 9 and Line 10 – Dividends

See Schedule H, Dividend Income Deduction, instructions.

Line 11 – Contributions

For income years beginning on or after January 1, 1996, the contribution deduction is 10% of California net income, without regard to charitable contributions and special deductions (e.g. the deduction for dividends received). The definition of California net income differs from federal taxable income for computing the contribution deduction.

Five-year carryover provisions per IRC Section 170(d)(2) shall apply for excess contributions made during income years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100S format, complete Form 100S, Side 1, through line 15 (without regard to line 11). Then complete the worksheet below to determine the contribution deduction to enter on this line.

1. Net income after state adjustments from Side 1, line 15.
2. Deduction for dividends received
3. Net income for contribution calculation purposes. Add line 1 and line 2.
4. Allowable contributions. Multiply line 3 by 10% (.10)
5. Enter the amount actually contributed
6. Enter the smaller of line 4 or line 5 here and on Side 1, line 11

If any federal contribution deduction was taken in arriving at the amount entered on Side 1, line 1, enter that amount as an addition on line 7.

Get Schedule R, Apportionment and Allocation of Income, to figure the contribution computation for apportioning corporations.

Line 12 – EZ, LARZ or LAMBRA business expense and net interest deduction

Businesses conducting a trade or business within an EZ, LARZ or a LAMBRA may **elect** to treat a portion of the cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct a percentage of the cost in that year rather than depreciate it over the life of the asset. For more information, get form FTB 3805Z and the Enterprise Zone Business Booklet, form FTB 3806 and the Los Angeles Revitalization Zone Booklet, or form FTB 3807 and the Local Agency Military Base Recovery Areas Booklet.

Also, a deduction may be claimed on this line for the amount of net interest on loans made to an individual or company doing business inside an EZ or LARZ. For more information, get form FTB 3805Z and the 1997 Enterprise Zone Business Booklet or form FTB 3806 and the 1997 Los Angeles Revitalization Zone Booklet.

Be sure to attach form FTB 3805Z, form FTB 3806 or form FTB 3807 if any of these benefits are claimed. If the proper form is not

attached, these tax benefits may be disallowed.

Line 13 – Other deductions

Include on this line deductions not claimed on any other line. Attach a schedule that clearly shows how each deduction was computed and explain the basis for the deduction.

Include in the computation for line 13 any passive activity loss. Also enter any IRC Section 179 expense from Schedule B (100S), line 5a.

For S corporations subject to income (and not franchise) tax, interest received on obligations of the federal government and on obligations of the State of California and its political subdivisions is exempt from income tax. If such interest is reported on line 3, deduct it on this line.

Federal ordinary net gain or loss. Enter any federal ordinary net gain or loss from federal Form 4797, Sales of Business Property, line 18, if the amount is included in income on line 1.

Line 16 – Net income (loss) for state purposes

If all the S corporation income is derived from California sources, transfer the amount from line 15 to this line.

If only a portion of income is derived from California sources, complete Schedule R, Apportionment and Allocation of Income, before entering any amount on this line. Transfer the amount from Schedule R, line 24, to this line. Be sure to answer "Yes" to Question P on Form 100S, Side 2.

If this line is a net loss, complete and attach the 1997 form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitation – Corporations, to Form 100S.

Line 17 – R&TC Section 23802(e) deduction

If the S corporation has a tax imposed on excess net passive investment income, certain capital gains and built-in gains, a deduction is allowed against the net income taxed at the 1.5% rate. See the instructions for the "Excess Net Passive Income and Income Tax Worksheet," on page 10 to determine if the S corporation is subject to the tax on excess net passive investment income. If a tax is shown on this worksheet, enter the amount of excess net passive income from line 8 of the worksheet on Form 100S, Side 1, line 17.

For purposes of the built-in gains tax, enter the smaller amount of line 11 or line 13 from Section A, Part III of Schedule D, or line 20 from Section A, Part IV of Schedule D.

NOTE: The order in which lines 18, 19 and 20 appear is not meant to imply that this is the order in which any type of NOL carryover deduction or disaster loss deduction be taken if more than one type of deduction is available. See form FTB 3805Q for more information.

Line 18, Line 19 and Line 20**Line 18 – Net operating loss carryover deduction**

The NOL deduction is the amount of the NOL carryover from **prior** years that may be deducted from income in this income year. However, the loss may not reduce the S corporation's current year income below zero. Any excess loss must be carried forward.

If line 16 less line 17 is a positive amount, enter the NOL carryover (but not more than line 16 less line 17) from the S corporation's **1997** form FTB 3805Q, Part III, line 3 on Form 100S, Side 1, line 18. Attach a copy of the **1997** form FTB 3805Q to Form 100S. If the full amount of the NOL carryover may not be deducted this year, complete and attach a 1997 form FTB 3805Q showing the computation of the NOL carryover to future years.

If line 16 less line 17 is a negative amount, enter -0- on this line and see form FTB 3805Q instructions for the computation of the NOL carryover to future years.

No NOL carryover arising from a year in which an S corporation was a C corporation may be applied against the 1.5% tax. See IRC Section 1371(b)(1) and R&TC Section 23802(d). However, if the corporation terminates its S election, thus becoming a C corporation, then the prior year NOL carryover may be used to the extent it has not expired.

Note: NOL carryovers arising from a year in which the S corporation was a C corporation may be used in computing the tax on built-in gains.

Line 19 – EZ, LARZ or LAMBRA net operating loss (NOL) carryover deduction

An NOL generated by a business that operates or invests within an EZ, the LARZ or a LAMBRA may receive special tax treatment. 100% of the NOL generated can be carried forward for up to 15 years. Get form FTB 3805Z, form FTB 3806 or form FTB 3807 for more information.

Enter the EZ, LARZ or LAMBRA NOL carryover deduction from the S corporation's 1997 form FTB 3805Z, form FTB 3806, or form FTB 3807, on Form 100S, line 19. Attach a copy of the 1997 form FTB 3805Z, form FTB 3806 or form FTB 3807 to the Form 100S.

Line 20 – Disaster loss carryover deduction

If the S corporation has a disaster loss carryover deduction, enter the total amount from Part III, line 2 of the 1996 FTB 3805Q only if the corporation has income in the current year.

Line 22 – Tax

S corporations must use a tax rate of 1.5%. Financial S corporations must use the financial tax rate of 3.5%. The tax on this line may not be less than the minimum franchise tax and QSSS annual tax, if applicable. See General Information B.

If the S corporation is the parent of a Qualified Subchapter S Subsidiary (QSSS) and paid the \$800 annual tax on behalf of the QSSS, add the total amount of QSSS annual tax to the tax on net income or the minimum franchise tax, whichever is applicable, and enter the result on line 22.

Example: Corporation A, an S corporation, is the parent of two QSSS's. Corporation A reports net income for tax purposes on line 21 of \$50,000. Tax on net income is \$750

(\$50,000 X 1.5%). On line 22, Corporation A will report tax of \$2,400. Since tax on net income is \$750, Corporation A is subject to at least the minimum franchise tax. Corporation A is also liable for the \$800 annual tax for its two QSSSs.

Corporation B, an S corporation, is the parent of four QSSS's. Corporation B reports net income for tax purposes on line 21 of \$500,000. Tax on net income is \$7,500. On line 22, Corporation B will report tax of \$10,700. The \$10,700 includes tax on net income of \$7,500 plus \$3,200 of QSSS annual tax payment for the four QSSS's.

Line 23 through Line 26 – Tax credits

Credits may be used to reduce the California tax liability but may not be used to reduce the tax on line 22 to an amount less than the minimum franchise tax and the QSSS annual tax, if applicable. Also, the S corporation is allowed to claim only 1/3 of the total credit generated against the 1.5% franchise tax. See General Information Z and AA.

Complete the applicable credit form for each credit claimed. For any carryover only credits, complete form FTB 3540, Credit Carryover Summary.

Transfer the credit(s) from the respective credit forms to Schedule C to compute the amount of credit to claim on Form 100S. Then transfer the credit(s) from Schedule C to Form 100S. Each credit is identified by a code number. To claim one, two or three credits enter the credit name, code number and the amount of the credit on line 23, line 24 and line 25. Enter the total of any remaining credits from Schedule C on line 26. Do not make an entry on line 26 unless lines 23 through 25 are complete.

Attach all credit forms, schedules and Schedule C to Form 100S.

CREDIT NAME	CODE	DESCRIPTION
Community Development Financial Institution Deposits — Obtain certification from: CALIFORNIA ORGANIZATION INVESTMENT NETWORK (COIN) DEPARTMENT OF INSURANCE 300 CAPITOL MALL, SUITE 1460 SACRAMENTO CA 95814	209	20% of qualified deposit made into a community development financial institution
Disabled Access for Eligible Small Businesses – FTB 3548	205	Similar to the federal credit, but limited to \$125 based on 50% of qualified expenditures that do not exceed \$250
Donated Agricultural Products Transportation – FTB 3547	204	50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations
Employer Child Care Contribution – FTB 3501	190	Employer: 30% of contributions to a qualified plan
Employer Child Care Program – FTB 3501	189	Employer: Cost of establishing a child care program or constructing a child care facility
Enhanced Oil Recovery – FTB 3546	203	1/3 of the similar federal credit but limited to qualified enhanced oil recovery projects located within California
Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z	176	Business incentives for enterprise zone businesses
Farmworker Housing – Construction Obtain certification from: FARMWORKER HOUSING ASSISTANCE PROGRAM CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE 916 CAPITOL MALL, ROOM 485 SACRAMENTO CA 95814	207	50% of qualified costs paid or incurred to construct or rehabilitate qualified farmworkers housing
Farmworker Housing – Loan	208	Banks and financial corporations: 50% of foregone interest income on qualified farm-worker housing loans
Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax – FTB 3807	198	Business incentives for LAMBRAs
Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax – FTB 3806	159	Business incentives for LARZ
Low-Income Housing – FTB 3521	172	Similar to the federal credit but limited to low-income housing in California
Manufacturers' Investment – FTB 3535	199	6% of the cost of qualified property
Prison Inmate Labor – FTB 3507	162	10% of wages paid to prison inmates
Research – FTB 3523	183	Similar to the federal credit but limited to costs for research activities in California
Rice Straw Obtain certification from: DEPARTMENT OF FOOD AND AGRICULTURE 1220 N STREET, ROOM 409 SACRAMENTO CA 95814	206	\$15 per ton of rice straw grown in California
Salmon & Steelhead Trout Habitat Restoration – Obtain certification from: DEPARTMENT OF FISH AND GAME C/O FISH-TIMBER TAX CREDITS PROGRAM PO BOX 944209 SACRAMENTO CA 95244-2090	200	10% of qualified costs
Agricultural Products	175	The expiration dates for these credits have passed. However, these credits had carryover features. You may claim these credits if there is a carryover available from prior years. If you are not required to complete Schedule P (100), get form FTB 3540, Credit Carryover Summary, to figure your credit carryover to future years.
Commercial Solar Electric System	196	
Commercial Solar Energy	181	
Contribution of Computer Software	202	
Employer Ridesharing – Large employer	191	
Employer Ridesharing – Small employer	192	
Employer Rideshare – Transit passes	193	
Energy Conservation	182	
Low Emission Vehicles	160	
Orphan Drug	185	
Program Area Hiring & Sales or Use Tax	177	
Residential Rental & Farm Sales	186	
Recycling Equipment	174	
Ridesharing	171	
Solar Energy	180	
Solar Pump	179	
Technology Property Contributions	201	
Water Conservation	178	

Line 29 – Tax from Schedule D (100S)

S corporations must enter the tax from Schedule D (100S) (included in this booklet). See General Information J for more information.

Line 30 – Excess net passive income tax

If the corporation has always been an S corporation for California purposes or has no federal excess net passive investment income, the excess net passive investment income tax does not apply. See General Information S for more information.

To determine if the S corporation owes this tax, complete line 1 through line 3 and line 9 of the "Excess Net Passive Income and Income Tax Worksheet" on page 10. If line 2 is greater than line 3 and the S corporation has taxable income, it must pay the tax. Complete a separate schedule using the format of line 1 through line 11 of the worksheet on page 10 to figure the tax. Enter the tax on Form 100S, Side 1, line 30. Attach the schedule showing the computation. Reduce each item of passive income passed through to shareholders by its portion of the tax on line 30. See IRC Section 1366(f)(3) and R&TC Section 23803(b)(2).

R&TC Section 23811(e) provides a deduction for C corporation earnings and profits attributable to California sources for any income year by the amount of a consent dividend paid after the close of the income year. The amount of the consent dividend is limited to the difference between the C corporation earnings and profits attributable to California sources and the C corporation earnings and profits for federal purposes.

Line 32 – Additional SOS Prepayment Tax

For income years beginning on or after January 1, 1997, the corporation must pay an additional \$200 on the original due date of the return if it:

- Incorporated as a qualified new corporation with the California SOS; and
- Paid the \$600 commencing tax; and
- Had gross receipts, less returns and allowances, exceeding \$1 million or tax on net income exceeding \$800, during the first income year.

Line 33 – Adjusted Total Tax

Add line 31 and line 32. Enter the result on this line.

Line 35 – 1997 Estimated Tax Payments

Enter the total amount of estimated tax payments made during the 1997 income year on this line. If the S corporation is the parent of a Qualified Subchapter S Subsidiary (QSSS) and made payments for the QSSS annual tax, include the total amount of QSSS annual tax payment made during 1997 on this line along with the total estimated tax payments. Be sure to complete the schedule on page 18 of this booklet and attach it to the return.

Line 38 and Line 39 – Tax due or overpayment

In addition to any amount entered on line 38 or line 39, tax due or overpayment, also include any amounts required to be included from Schedule J, Add-On Taxes or Recapture of Tax Credits.

Line 42 – Penalties and Interest

Complete and attach form FTB 5806, Underpayment of Estimated Tax by Corporations, to the front of Form 100S only if Exception B or Exception C is used to compute or eliminate the penalty.

Excess Net Passive Income and Income Tax Worksheet

1	Enter gross receipts for the income year (see IRC Section 1362(d)(3)(C) for gross receipts from the sale of capital assets)*.	1		
2	Enter passive investment income as defined in IRC Section 1362(d)(3)(D)*	2		
3	Enter 25% (.25) of line 1. If line 2 is less than line 3, the corporation is not liable for this tax.	3		
4	Excess passive investment income. Subtract line 3 from line 2	4		
5	Enter expenses directly connected with the production of income on line 2 (see IRC Section 1375(b)(2))*	5		
6	Net passive income. Subtract line 5 from line 2	6		
7	Divide the amount on line 4 by the amount on line 2	7		
8	Excess of net passive income. Multiply line 6 by line 7 (see instructions on line 11, below)	8		
9	Enter taxable income**	9		
10	Enter the smaller of line 8 or line 9	10		
11	Excess net passive income tax. Enter 8.84% (financial S corporations must use 10.84%) of line 10 here and on Form 100S, Side 1, line 30. (If an amount is entered here go to line 8 above, and carry the line 8 amount to Form 100S, line 17.) . . .	11		

* Income and expenses on line 1, line 2 and line 5 are from total operations for the income year. This includes applicable income and expenses from Form 100S, Side 1. See IRC Sections 1362(d)(3)(D) and 1375(b)(4) for exceptions regarding line 2 and line 5.

** Taxable income is defined in federal Treas. Regulations Section 1.1374-1A(d). Figure taxable income by completing line 1 through line 17 of Form 100, California Corporation Franchise or Income Tax Return. Clearly mark "ENPI Taxable Income" on the Form 100 computation and attach it to Form 100S.

Schedules

Schedule B (100S)

California generally conforms to the provisions of IRC Section 197 for amortization of intangibles for income years beginning on or after January 1, 1994. However, there may be differences in the federal and California amounts for intangible assets acquired in income years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

California did not allow depreciation under the federal accelerated cost recovery system (ACRS) for years prior to 1987. California also does not allow depreciation under ACRS for assets placed in service while the corporation was taxable as a C corporation.

S corporations must continue calculating the California depreciation deduction for assets placed in service before January 1, 1987, in the same manner as in prior years. Refer to form FTB 3885, Corporation Depreciation and Amortization, to determine how to continue depreciating these assets. The following were the most common methods used to calculate depreciation for years prior to 1987:

- Straight-line;
- Declining balance; and
- Sum-of-the-years digits.

For assets placed in service after 1987, S corporations may use the same method for California as was used for federal purposes. S corporations conducting a trade or business inside an EZ, the LARZ or a LAMBRA may elect to treat a portion of the cost of qualified property as a business expense in the first

year it is placed in service. This expense deduction is in lieu of the IRC Section 179 expense deduction. For more information, get form FTB 3805Z, form FTB 3806 or form FTB 3807.

Schedule C (100S)

Use Schedule C (100S) to determine the allowable amount of credits to claim on the 1997 Form 100S and the credit carryover to future years. For more information, see General Information Y, Z and AA.

Column (a)

The amount entered in column (a) must be limited to 1/3 the amount of the total credit.

Schedule D (100S)

Schedule D (100S) is divided into Section A and Section B. Use Section A to report all built-in gains and certain capital gains subject to the 8.84% tax rate (10.84% for financial S corporations). Use Section B to report all other capital gains subject to the 1.5% tax rate (3.5% for financial S corporations). For more information, see General Information J.

Note: Use California amounts when computing gain from like-kind exchanges on federal Form 8824.

Section A

Part I and Part II

S corporations use Part I to report and summarize gains and losses attributable to: (1) sale or exchange of capital assets; and (2) gains on distributions to shareholders of appreciated assets that are capital assets. Be sure to use the California basis for all assets when computing the gain or loss. Refer to the instructions for federal Schedule D (Form 1120S) for more information.

Part III

To determine if the S corporation is subject to the tax on certain capital gains, see the instructions for federal Schedule D (Form 1120S) and General Information J.

Part IV

Line 16

To determine if the S corporation is subject to tax on built-in gains, see the instructions for federal Schedule D (Form 1120S) and General Information J.

Apportioning corporations only: All recognized built-in gains and all recognized built-in losses apportioned and allocated to California must be included on line 16.

Line 19

Enter on this line the amount from form FTB 3805Q that reflects NOLs from the years the corporation was a C corporation. Reduce future NOL carryovers from C corporation years by the amount applied on this line.

Section B

S corporations use Part I and Part II to report the sale or disposition of all capital assets acquired as an S corporation or which are not reported in Section A. For more information, see the instructions for federal Schedule D (Form 1120S).

Schedule F

Line 7 – Compensation of Officers

If the S corporation's total receipts are \$150,000 or more, complete and attach federal Schedule E (Form 1120S) or a schedule showing the compensation of officers. On the schedule list:

- Name of officer;
- Social security number of officer;
- Percentage of time devoted to the business;

- Percentage of stock owned; and
- Amount of compensation.

Also show the calculation of compensation of officers deducted:

- Total compensation of officers, minus
- Compensation of officers claimed in the cost of goods sold schedule and elsewhere on the return.

Schedule H

S corporations may claim a deduction for dividends paid by a corporation taxed by California on earnings from which the dividends are paid.

Intercompany Dividends

Dividends paid to an electing S corporation from earnings and profits accumulated during any income year in which the dividend payer was included in the combined report which included the dividend payee, qualify for the 100% intercompany dividend deduction.

Complete Schedule H, Part I. Enter the total of Part I, column (d) on Form 100S, Side 1, line 9.

Other Dividends

To determine the deductible percentage of a dividend (Schedule H, Part II, column (f)) send a written request showing the complete name of the dividend paying corporation to:

DEDUCTIBLE DIVIDENDS
FRANCHISE TAX BOARD
PO BOX 1468
SACRAMENTO CA 95812-1468

Or call the FTB at the phone numbers listed on page 39 of this booklet. Allow eight to ten weeks for a written reply. Enter this percentage amount on Schedule H, Part II, column (f).

To figure the amount of dividends to enter on Form 100S, line 9, fill out Part II and Part III of Schedule H. To complete Part II:

1. Fill in columns (a) through (c)
2. Enter the corporation's percentage of ownership of the dividend paying corporation on Schedule H, Column (d).
3. Determine the limitation percentage and enter it on Schedule H, Part II, column (e). Refer to the ownership percentages in column (d) and the limitation percentages below to determine the applicable limitation percentage.

If the dividend	then the limitation
paying corporation is:	percentage is:
Less than 20% owned	70%
At least 20% but	
not more 50% owned	80%
More than 50% owned	100%
4. Multiply the dividend received (column (b)) by the limitation percentage (column (e)).
5. Multiply the result of line 4 by the deductible percentage (column (f)).
6. Enter the result of line 5 in column (g).

To complete Part III:

1. Follow steps 1 and 2 above.

2. Enter in column (e) the amount of qualified insurance dividends received from Schedule H, Part I, column (g) for which a deduction under Part I and Part II has not been claimed.
3. Enter the apportionment factors for the insurance corporation in column (f).
4. Multiply the amount in column (e) by the amount in column (f) and enter the result in column (g).

Total the amounts on Schedule H, Part II, column (g), line 7 and Part III, column (g), line 7. Enter the result on Part III, column (g), line 8 and on Form 100S, Side 1, line 9.

Water's-Edge Dividends

California R&TC Section 24411 allows for a 75% deduction of a portion of the dividends received and included in the water's-edge return. Dividends received from banks **do not** qualify for the water's-edge dividend deduction. Both business and nonbusiness dividends qualify for the dividend deduction. The allowable business dividend deduction is determined by multiplying the total dividend deduction (business and nonbusiness) by the ratio of business dividends to total dividends. The remaining dividend deduction is the non-business dividend deduction.

In no event will a R&TC Section 24411 deduction be allowed with respect to a dividend for which a deduction was allowed under R&TC Sections 24402 or 24410 or which was eliminated under R&TC Section 25106.

Current year qualifying dividends are dividends received by any current member of the water's-edge group from a corporation (regardless of the place of incorporation) if:

- The average of the payer's property, payroll and sales factors within the U.S. is less than 20%; and
- More than 50% of the total combined voting power of all classes of voting stock is owned directly or indirectly by a member of the water's-edge group at the time the dividend is received.

The payer need not be in a unitary relationship with the recipient or any other member of the water's-edge group.

Intercompany dividends received within the current year's water's-edge group should be eliminated pursuant to R&TC Section 25106 before computing the dividend deduction.

A deduction of 100% is provided for dividends derived from certain foreign construction projects. A construction project is defined as an activity attributable to an alteration of land or any improvement thereto. The construction project, the location of which is not subject to the taxpayers' control, must be undertaken for an entity, including a governmental entity, that is not affiliated with the water's-edge group. For more information, see R&TC Section 24411 and Form 100-WE, Water's-Edge Booklet and instructions.

Complete Form 100S, Schedule H, Part IV and enter the total of column (f) on Form 100S, Side 1, line 10.

Schedule J

Complete Schedule J if the S corporation has credit amounts to recapture or is required to include installment payments of "add-on" taxes for:

- LIFO recapture resulting from an S corporation election;
- Interest computed under the look-back method for completed long-term contracts;
- Interest on tax attributable to installment sales of certain property or use of the installment method for non-dealer installment obligations; or
- IRC Section 197(f)(9)(B)(ii) election to recognize gain on the disposition of an IRC Section 197 intangible.

Revise the tax due or overpayment on Form 100S, line 38 or line 39, as appropriate, by the amount from Schedule J, line 6.

LIFO recapture tax. If the S corporation computed the LIFO recapture tax in the final year as a C corporation, include on Schedule J, line 1 any LIFO installment due this income year.

Long-term contracts. If the S corporation must compute interest under the look-back method for completed long-term contracts, complete form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, and include the amount of interest the S corporation owes or the amount of interest to be credited or refunded to the S corporation on Schedule J, line 2. Attach form FTB 3834 to Form 100S. If interest is to be credited or refunded, enter as a negative amount.

Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots. If the S corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under IRC Section 453(l)(3) (R&TC Section 24667), it must include the interest due on Schedule J, line 3a. For the applicable interest rates, get FTB Pub. 1138, Refund/Billing Information. Attach a schedule showing the computation.

Interest on tax deferred under the installment method for certain nondealer installment obligations. If an obligation arising from the disposition of property to which IRC Section 453A (R&TC Section 24667) applies is outstanding at the close of the income year, the corporation must include the interest due under IRC Section 453A(c) on Schedule J, line 3b. Attach a schedule showing the computation. For the applicable interest rates, get FTB Pub. 1138, Refund/Billing Information.

IRC Section 197(f)(9)(B)(ii) election. Complete Schedule J, line 4 if the corporation

elected to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules.

Credit recaptures. Complete Schedule J, line 5, if the S corporation completed the credit recapture portion of:

- FTB 3501, Employer Child Care Program/Contribution Credit; or
- FTB 3805Z, Part VI, Hiring Credit — Enterprise Zone Recapture of Deduction and Credits; or
- FTB 3806, Los Angeles Revitalization Zone Recapture of Deduction and Credits; or
- FTB 3807, Part VI, Local Agency Military Base Recovery Area Recapture of Deduction and Credits; or
- FTB 3535, Manufacturers' Investment Credit.

Schedule K and Schedule K-1

Shareholders' share of income, deductions, credits, etc.

Purpose of schedules

Schedule K (100S) is a summary schedule of all the shareholders' shares of the S corporation's income, deductions, credits, etc. Schedule K-1 (100S) shows each shareholder's separate share of pass-through items and adjusted basis. Use federal Schedule K and Schedule K-1 (Form 1120S) as a basis for preparing California Schedule K and Schedule K-1 (Form 100S).

Note: Amounts on Schedule K-1 may not add up to amounts reflected on Form 100S, Side 1 amounts because Side 1 calculates tax at the S corporation level while Schedule K-1 amounts are calculated using different rules.

Attach one copy of each Schedule K-1 (100S) to the Form 100S filed with the FTB. Keep one copy of each Schedule K-1 (100S) for the S corporation's records, and give each shareholder a copy of Schedule K-1 (100S) on or before the due date of Form 100S.

Note: Be sure to give each shareholder a copy of either the Shareholder's Instructions for Schedule K-1 (100S) (included in this booklet) or specific instructions for each item reported on the shareholder's Schedule K-1 (100S).

Substitute forms

You need approval from the FTB to use a substitute Schedule K-1 (100S). The substitute schedule must include the Shareholder's Instructions for Schedule K-1 (100S) or other prepared specific instructions. For more information, get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms.

General Instructions

If a husband and wife each had a separate interest in the S corporation, you must prepare a separate Schedule K-1 (100S) for each of them.

If a husband and wife held an interest together, prepare one Schedule K-1 (100S) if the two of them are considered to be one shareholder.

On each Schedule K-1 (100S), enter the name, address and identifying number of the shareholder and the S corporation and the shareholder's distributive share of each item. For an individual shareholder, enter the shareholder's social security number. For all other shareholders, enter their federal employer identification number (FEIN).

In column (b) on Schedules K and K-1 (100S), enter the corresponding amounts from federal Schedules K and K-1 (Form 1120S). In column (c), enter adjustments resulting from differences between California and federal law for each of the specific line items. In column (d), enter the California amount, which is the result of combining column (b) and column (c).

Reminder: When entering California adjustments in column (c) of Schedule K (100S) or Schedule K-1 (100S), be sure to adjust for differences between federal and California amounts (or taxes), as applicable to individuals, for:

- Built-in gains tax (Schedule D (100S));
- Capital gains tax (Schedule D (100S)); and
- Excess net passive income tax (Form 100S, Side 1, line 30).

This column must not be used to adjust for apportionment or allocation of income.

Column (d) of Schedule K-1(100S) reflects the shareholder's share of S corporation items under California law. Column (e) of Schedule K-1(100S) reflects income that is taxable to California based on the sourcing and apportioning rules of California. The computation of these amounts is a matter of law and regulation, and the residency of the shareholders is not a factor in the computations of column (d) and column (e). For an S corporation that is doing business only in California, column (e) will generally be the same as column (d), except for nonbusiness intangible income (for example, nonbusiness interest, dividends, and gain or loss from sales of securities). For an S corporation that is doing business within and outside California, the amounts in column (d) and column (e) will be different, even for California residents. When the S corporation is uncertain of the residency status of any shareholder, the S corporation must complete column (d) and column (e) for the shareholder and Table 1 and if appropriate, Table 2. The final determination of residency is made at the shareholder level. If the S corporation is certain that a shareholder is a resident of California and the S corporation is nonapportioning, the S corporation should answer "No" to Question E on Schedule K-1 and complete column (d) only. Apportioning S corporations must always complete column (d), column (e) and Table 1 and if appropriate, Table 2.

Column (e) of Schedule K-1 (100S) is used to report California source income amounts and

credits. Include the following items in column (e):

- Gross income less allowable deductions from separate businesses, trades or professions conducted wholly within California (see Title 18 Cal. Code Reg. Section 17951-4 (a));
- Business income from unitary businesses, trades or professions of the S corporation apportioned to California determined by application of R&TC Sections 25128 through 25137, inclusive (see Title 18 Cal. Code Reg. Section 17951-4 (c)). Generally, income will be apportioned using either a 3 or 4 factor formula. If more than 50% of the business receipts of the apportioning activity are from agricultural, extractive, savings and loan, or bank or financial activities, the 3 factor formula is used; otherwise, the 4 factor formula is used. In most cases, the determination of whether or not the 3 or 4 factor apportionment applies is made by reference to the gross business receipts of the S corporation itself. Apply the apportionment factors from Schedule R, Apportionment and Allocation of Income, to the business income portion of each line item. However, if the shareholder conducts a trade or business that is unitary with the S corporation, the determination of whether the 3 or 4 factor apportionment applies must be determined at the shareholder level. In such cases, the apportionment items on Schedule K-1 (100S), Table 2 will be used by the shareholder in making that determination. Amounts in column (e) will only be used if the shareholder is not unitary with the S corporation (For more information, see Total amounts using California law on page 34). **Note:** A 4 factor formula is defined as property, payroll and a double-weighted sales factor;
- Nonbusiness income allocated to California under the provisions of R&TC Sections 25124 through 25127 (see Title 18 Cal. Code Reg. Sections 17951-3, 17951-4 (c) and 17952). Do not enter nonbusiness items whose source is based on the residency or commercial domicile of the shareholder. Enter these amounts on the applicable lines on Schedule K-1 (100S), Table 1 (attach a schedule if necessary); and
- California tax credits.

Special reporting requirements for passive activities

If items of income (loss), deduction or credit from more than one activity are reported on Schedule K-1 (100S), the S corporation must attach a statement to Schedule K-1 (100S) for each activity that is a passive activity to the shareholder. Rental activities are passive activities to all shareholders. Trade or business activities are passive activities to shareholders who do not materially participate in the activity.

The attachment must include all the information explained in the instructions for federal Schedule K-1 (Form 1120S).

Specific Line Instructions

Item A through Item E (Schedule K-1 (100S) only)

To insure correct processing of Schedule K-1 (100S), answer all items that are appropriate.

Item A and Item B (Schedule K-1 (100S) only)

See the instructions for Item A and Item C of federal Schedule K-1 (Form 1120S).

Income

Line 1 – Ordinary income (loss) from trade or business activities

Enter in column (c) any California adjustments to ordinary income that do not need to be separately stated. Include in this column the adjustment to add back the minimum franchise tax or the 1.5% tax.

Line 2 – Net income (loss) from rental real estate activities

Enter the net of income and expenses of any rental real estate activity of the S corporation. If the S corporation has more than one rental real estate activity reported on these lines, attach a separate schedule or use Schedule K-1 (100S), line 23 to list the income or loss from each activity, plus any other information required under the rules for passive activities. Attach form FTB 3801, Passive Activity Loss Limitations, to Form 100S.

Line 3a, Line 3b and Line 3c – Net income (loss) from other rental activities (Schedule K (100S) only)

Enter the net of income and expenses of other rental activities not listed on line 2 above. If the S corporation has more than one rental activity reported on these lines, attach a separate schedule listing the income or loss from each activity, plus any other information required under the rules for passive activities.

Line 4a through Line 4f – Portfolio income (loss)

Portfolio income (loss) is any gross income from interest, dividends, annuities or royalties that is not derived in the ordinary course of business. Portfolio income must be separately accounted for as such. Portfolio income also includes gains or losses from the sale or other disposition of property (other than an interest in a passive activity) producing portfolio income or held for investment.

Line 4a, Line 4b and Line 4c – Interest, dividend and royalty income

Enter only taxable interest, dividend and royalty income that is portfolio income.

Line 4d and Line 4e – Net capital gain (loss)

Enter on line 4d and line 4e the amount of capital gains and losses that is portfolio income (loss). If any of the income (loss) is not portfolio income (loss), include it on line 6.

Note: The exclusion allowed under R&TC Section 18152.5 for small business stock is not allowed for an S corporation.

Line 4f – Other portfolio income (loss)

Enter any other portfolio income (loss) not entered on line 4a through line 4e.

Line 5 – Net gain (loss) under IRC Section 1231

The amount for line 5 comes from Schedule D-1, Sales of Business Property. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report these gains or losses on line 6.

If the S corporation has more than one activity and the amount on line 5 is a passive activity amount to the shareholder, attach a statement to Schedule K-1 (100S) (or use Schedule K-1 (100S), line 23) to identify to which activity the IRC Section 1231 gain (loss) relates.

Line 6 – Other income (loss)

Enter any other item of income or loss not included on line 1 through line 5, such as:

- a. Wagering gains and losses. See IRC Section 165(d).
- b. Recovery of tax benefit items. See IRC Section 111.
- c. Any gain or loss where the S corporation was a trader or dealer in IRC Section 1256 contracts or property related to such contracts. See IRC Section 1256(f).
- d. Net gain (loss) from involuntary conversions due to casualty or theft.
- e. Loss(es) from qualified low-income housing projects for shareholders that are qualified investors.

Deductions

Line 7 – Charitable contributions

Enter the total amount of charitable contributions made by the S corporation during its income year on Schedule K (100S) and each shareholder's distributive share on Schedule K-1 (100S). On an attachment to each schedule, separately show the dollar amount of contributions subject to each of the 50%, 30% and 20% of adjusted gross income limits.

A resident shareholder is allowed a deduction for contributions to a qualified organization as provided in IRC Section 170.

Line 8 – Expense deduction for recovery property

The amount of expense deduction for recovery property that can be claimed from all sources will vary depending on the type of property and the year of designation. For more information, see IRC Section 179 and R&TC Sections 17201, 17267.2, 17266 and 17268.

Line 9 – Deductions related to portfolio income (loss)

Enter on this line the deductions allocable to portfolio income (loss) other than interest

expenses. Generally, these deductions are IRC Section 212 expenses and are subject to IRC Section 212 limitations at the shareholder level. However, interest expense related to portfolio income (loss) is generally investment interest expense and is reported on line 11a.

Investment Interest

Line 11a through Line 11b(2)

These lines must be completed whether or not a shareholder is subject to the investment interest rules.

Line 11a – Interest expense on investment debts

Include on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on Schedules K and K-1 (100S), line 11a rather than Schedules K and K-1 (100S), line 9. Investment interest does not include interest expense allocable to a passive activity. A passive activity is a rental activity or a trade or business activity in which the shareholder does not materially participate.

Property held for investment includes a shareholder's interest in a trade or business activity that is not a passive activity to the shareholder and in which the shareholder does not materially participate. An example would be a shareholder's working interest in oil and gas property (i.e., the shareholder's interest is not limited) if the shareholder does not materially participate in the oil and gas activity.

The amount on line 11a will be reflected (after applying the investment interest expense limitations) by individual shareholders on their Schedule CA (540 or 540NR), California Adjustments.

For more information, get form FTB 3526, Investment Interest Expense Deduction.

Line 11b(1) and Line 11b(2) – Investment income and expenses

Enter on line 11b(1) only the investment income included on Schedules K and K-1 (100S), line 4a through line 4f. Enter on line 11b(2) only the investment expense included on Schedules K and K-1 (100S), line 9.

If there are items of investment income or expense included in the amounts that are required to be passed through separately to the shareholder on Schedule K-1 (100S) (items other than the amounts included on Schedule K-1 (100S), line 4a through line 4f and line 9), give each shareholder a schedule identifying these amounts.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment and other amounts that are gross portfolio income. Investment income and

investment expenses do not include any income or expenses from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income.

For more information get form FTB 3526.

Tax Credits

Line 12a – Low-income housing credit

R&TC Section 23610.5 provides a credit that may be claimed by owners of residential rental projects providing low-income housing. The credit is generally effective for buildings placed in service after 1986. If the shareholders are eligible to claim the low-income housing credit, attach a copy of form FTB 3521, Low-Income Housing Credit, to Form 100S and to each shareholder's Schedule K-1 (100S).

Line 12b – Other credits related to rental real estate activities

Report any information that the shareholder needs to figure credits related to a rental real estate activity other than the low-income housing credit. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

Line 12c – Credits related to other rental activities

Use this line to report information that the shareholder needs to figure credits related to a rental activity other than a rental real estate activity. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

Line 13 – Other credits

Enter on an attached schedule each shareholder's allocable share of any credit or credit information reported on Schedule C (100S) that is related to a trade or business activity.

The following are examples of credits that may apply to each shareholder:

- Enterprise zone hiring & sales or use tax credit (get form FTB 3805Z);
- Los Angeles Revitalization Zone (LARZ) hiring & sales or use tax credit (get form FTB 3806);
- Local Agency Military Base Recovery Area (LAMBRA) hiring & sales or use tax credit (get form FTB 3807);
- Employer child care program/contribution credit (get form FTB 3501);
- Research credit (get form FTB 3523); or
- Manufacturers' investment credit (get form FTB 3535).

Adjustments and Tax Preference Items

Line 14a through Line 14e

Enter the items of income and deductions that enter into each shareholder's computation of adjustments and tax preference items. A shareholder with alternative minimum tax items may be required to file Schedule P (540, 540NR or 541), Alternative Minimum Tax and Credit Limitations.

For more information, get the instructions for federal Schedules K and K-1 (Form 1120S), Adjustments and Tax Preference Items, line 14a through line 14e.

Other State Taxes

Line 15a through Line 15e

Subject to certain conditions, shareholders may claim a credit against their individual tax for net income taxes paid by the S corporation to another state that either taxes the corporation as an S corporation or does not recognize S corporation status. For purposes of this credit, net income taxes include the shareholder's share of taxes on, according to, or measured by income. Enter the name of the other state(s), the income reported to the other state(s) and the amount of tax paid. Attach a copy of the return filed with the other state.

Residents are taxable on all their pro rata share of income and generally receive a credit for taxes paid to other states. Nonresidents must use the amounts shown in column (e). For more information, see R&TC Sections 18001, 18002 and 18006.

Other Items

Line 16a through Line 19

Refer to the instructions for federal Schedules K and K-1 (Form 1120S).

Line 20 (Schedule K only)

Enter total distributions made to shareholders other than dividends reported on line 22 of Schedule K. Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

Line 21 (Schedule K only)

The S corporation may need to report supplemental information separately to each shareholder that is not specifically requested on the Schedule K-1(100S).

Attach a schedule to the Schedule K showing the computation of those items that must be reported separately to shareholders including any credit recapture reported by shareholders on line 23 of Schedule K-1. Refer to the instructions for line 21 of the federal Schedule K (1120S).

Shareholders may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances,

from the S corporation. As a result of legislation enacted in 1996, alternative minimum taxable income shall not include income, adjustments and items of tax preference related to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses. The S corporation can provide the shareholder's proportionate interest of aggregate gross receipts on Schedule K-1(100S), line 23. For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of non-business income (within the meaning of subdivision (d) of R&TC Section 25120). "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062 for more information. See Schedule K-1 (100S) instructions for more information.

Line 22 (Schedule K only)

Report the distribution amount made out of prior C corporation years accumulated earnings and profits (E&P). The corporation should issue a federal Form 1099-DIV to each of the shareholders reporting their proportionate distribution amounts.

Line 20 (Schedule K-1 only)

Report the distribution amount for each shareholder that was paid out of prior C corporation years accumulated earnings and profits (E&P). Each shareholder should receive a federal Form 1099-DIV reporting the proportionate distribution amount shown on line 20 of Schedule K-1 (100S).

Line 21 (Schedule K-1 only)

Report the distribution amount for each shareholder for distributions other than dividends reported on line 20 of Schedule K-1(100S). Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

Line 22 (Schedule K-1 only)

Report the amount of loan repayments the S corporation has made to each shareholder who has loaned the S corporation money.

Supplemental Information

Line 23 (Schedule K-1 only)

The S corporation will provide supplemental information required to be reported to each shareholder on this line.

The S corporation should provide an amount showing each shareholder's proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances on Schedule K-1(100S), line 23. Refer to the instructions above for line 21 Schedule K.

Report the credit recapture amount on line 23 if the S corporation completed the credit recapture portion of:

- FTB 3501, Employer Child Care Program/ Contribution Credit; or
- FTB 3805Z, Part VI, Hiring Credit Enterprise Zone or
- FTB 3806, Los Angeles Revitalization Zone (LARZ) Hiring Credit & Sales or Use Tax Credit; or
- FTB 3807, Local Agency Military Base Recovery Area (LAMBRA) Hiring Credit/Sales or Use Tax Credit; or
- FTB 3535, Manufacturers' Investment Credit

Also show on line 23 a statement showing each of the following:

1. Each shareholder's share of business income apportioned to an enterprise zone, LARZ or LAMBRA;
2. Each shareholder's pro-rata share of business capital gain or loss included in 1 above.

Table 1 and Table 2

Table 1 – Enter the shareholder's pro-rata share of nonbusiness income from intangibles. Because the source of this income must be determined at the shareholder level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short and long term capital gain), attach a supplemental schedule providing a breakdown of income in each subclass. Non-business income is all income other than business income. See definition of business income below.

Table 2 – In Part A, enter the shareholder's pro-rata share of the S corporation's business income. The shareholder will then add that income to its own business income and apportion the combined business income.

Business income is defined by Title 18 Ca. Code Regs. Section 25120(a) as income arising in the regular course of the taxpayer's trade or business. Business income includes income from tangible and intangible property if the acquisition, management and disposition of the property constitutes integral parts of the taxpayer's regular trade or business.

In Part B, enter the shareholder's pro-rata share of nonbusiness income from real and tangible property that is located in California. Because this income has a California source, this income should also be included on the appropriate line in column (e).

In Part C, enter the shareholder's pro-rata share of the S corporation's payroll, property and sales factors.

Schedule L

Line 23

Retained earnings include balances in the accumulated adjustments account (AAA), the

other adjustments account, and other retained earnings.

Schedule M-2

The computation of the California AAA and other adjustments account is similar to the federal computation applying California amounts. Get the instructions for federal Form 1120S and IRC Section 1368 for additional information.

Column (a) – The AAA is an account of the S corporation that generally reflects the accumulated undistributed net income of the corporation for the corporation's post-1986 years. S corporations with accumulated E&P from C corporation years must maintain the AAA to determine the tax effect of distributions during S years and the post-termination transition period. An S corporation without accumulated E&P does not need to maintain the AAA in order to determine the tax effect of distributions. However, if an S corporation without accumulated E&P engages in certain transactions to which IRC Section 381(a) applies, such as a merger into an S corporation with accumulated E&P, the S corporation must be able to calculate its AAA at the time of the merger for purposes of determining the tax effect of post-merger distributions. Therefore, it is recommended that all S corporations maintain the AAA.

At the end of the income year the AAA is determined by taking into account all items of income, loss and deductions for the income year (including nondeductible losses and expenses that are not capitalized but excluding certain exempt income and state taxes attributable to C years). After the year-end income and expense adjustments are made, the account is reduced by distributions made during the income year. The AAA should be reduced by the California built-in gains tax amount and the minimum franchise tax.

Note: The amount on Form 100S, Side 1, line 2 should be included as an other addition on Schedule M-2, line 3 and as an other reduction on Schedule M-2, line 5. Also include any other adjustments to arrive at California income.

Note: The AAA may have a negative balance at year end as a result of losses from the S corporation.

Column (b) – The other adjustments account is adjusted for tax-exempt income (and related expenses) of the S corporation. After adjusting for tax-exempt income, the account is reduced for any distributions made during the year.

Column (c) – Other retained earnings include appropriated and unappropriated retained earnings accumulated in prior years when the S corporation was a C corporation. Line 1, column (c) for the first S corporation return will be the sum of the ending balances of appropriated and unappropriated retained earnings for the previous year. Any dividend distributions should be entered on line 5, column (c).

Distributions

Generally, property distributions (including cash) are applied in the following order to reduce accounts of the S corporation that are used to compute the tax effect of distributions made by the S corporation to its shareholders:

1. Reduce the AAA determined without regard to any net negative adjustment for the income year (but not below zero). If distributions during the income year exceed the AAA at the close of the income year determined without regard to any net negative adjustment for the income year, the AAA is allocated pro rata to each distribution made during the income year. See IRC Section 1368(c). The term "net negative adjustment" means the excess, if any, of the reductions in the AAA for the income year (other than distributions) over the increases in the AAA for the income year.
2. Reduce accumulated E&P. Generally, the S corporation has accumulated E&P only if it has not distributed E&P accumulated in prior years when the S corporation was a C corporation (IRC Section 1361(a)(2)), or when the S corporation merged with another corporation that has C corporation accumulated E&P. The only adjustments that can be made to the accumulated E&P of an S corporation are:
 - a. Reductions for dividend distributions;
 - b. Adjustments for redemptions, liquidations, reorganizations, etc.; and
 - c. Reductions for R&TC Sections 24356.2, 24356.3 or 24356.4 property income recapture (relating to additional depreciation deduction for EZ and LARZ) for which the S corporation is liable.
3. Reduce the other adjustment account.
4. Reduce any remaining shareholders' equity account.

Note: Shareholders' previously taxed income (PTI) (Column (c), federal Form 1120S, Schedule M-2, 1120S) — California S corporations will **never** have undistributed PTI. The

federal code section that created PTI was removed from the IRC before California incorporated the federal S corporation provisions into the R&TC.

Elections relating to the order of distributions

The corporation may modify the ordering rules by making one or more of the following elections:

- Election to distribute accumulated E&P first. If the corporation has accumulated E&P and wants to distribute E&P before making distributions from the AAA, it may elect to do so with the consent of all its affected shareholders (IRC Section 1368(e)(3)(B)). This election is irrevocable and applies only for the tax year for which it is made. For more information regarding this election, see **Statement Regarding Elections**.
- Election to make a deemed dividend. If the corporation wants to distribute all or part of its C corporation accumulated E&P through a deemed dividend, it may elect to do so with the consent of all its affected shareholders (IRC Section 1368(e)(3)(B)). Under this section, the corporation will be treated as also having made the election to distribute E&P first. The amount of the deemed dividend cannot exceed the C corporation E&P made during the tax year. A deemed dividend is treated as if it were a pro rata distribution of money to the shareholders, received by the shareholders, and immediately contributed back to the corporation all on the last day of the tax year. This election is irrevocable and applies only for the tax year for which it is made. For more information regarding this election, see **Statement Regarding Elections**.

Statement Regarding Elections

To make any of the above elections, the corporation must attach a statement to a timely filed original or amended Form 100S for the year in which the election is made. The corpo-

ration must identify the election it is making and state that each shareholder consents to the election. A corporate officer must sign the statement under penalties of perjury on behalf of the corporation. The statement of election to make a deemed dividend must include the amount of the deemed dividend distributed to each shareholder.

When making either of the above elections, the corporation must prepare copies of federal Form 1099-DIV to shareholders to report this dividend as taxable income.

Note: The corporation may file the election for California purposes only. It is not necessary for the corporation to have the same election for federal purposes in order to make a California election. However, regardless of whether or not the corporation makes the same election on the federal return, the corporation must attach a separate election statement to the California return.

C corporation E&P

Check the box below Schedule M-2, line 9, if the S corporation was a C corporation in a prior year(s) and has C corporation E&P at the end of the income year. For this purpose, C corporation E&P means the remaining balance of E&P of any S corporation for any income year when it was not an S corporation. If the S corporation has C corporation E&P, it may be liable for excess net passive income tax and the distributions to shareholders may have different tax consequences for federal and California purposes. See instructions for Form 100S, Side 1, line 29 and line 30, for details on these taxes.

Qualified Subchapter S Subsidiary (QSSS) Annual Tax Payment Worksheet

If the S corporation is the parent of a QSSS and paid the \$800 minimum tax for the QSSS, use the worksheet below to report the date of payment, amount of tax paid, the name of the subsidiary, and the California Corporation number or Federal Employer Identification number (FEIN) of the QSSS. Attach the worksheet to Form 100S.

Qualified Subchapter S Subsidiary (QSSS) Annual Tax Payment Worksheet

QSSS Name	CA Corp No.	FEIN	Date of Payment	Amount Paid
Total				\$

1997

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Corporations

3805Q

Attach to your California tax return.

Corporation name as shown on the return

California corporation number

During the year the corporation incurred the NOL the corporation was a(n): ☐ C Corporation ☐ S Corporation ☐ Exempt Organization
☐ Limited Liability Company (corporations only)

If the corporation previously filed California returns under another corporate name, enter the corporation name and California corporation number:

Note: If the corporation is included in a combined report of a unitary group, see instructions, General Information C.

PART I Computation of current year NOL. If you do not have a current year NOL, go to Part II.

- 1 Net loss for state purposes from Form 100, line 18; Form 109, line 2; or Form 100S, line 16.
Enter as a positive number. **1** _____
- 2 1997 disaster loss included in line 1. Enter as a positive number **2** _____
- 3 Subtract line 2 from line 1. If zero or less enter -0- and see instructions **3** _____
- 4 **a** Enter the amount of the loss incurred by a new business included in line 3 **4a** _____
b Enter the amount of the loss incurred by an eligible small business included in line 3. **4b** _____
c Add line 4a and line 4b **4c** _____
- 5 Subtract line 4c from line 3 **5** _____
- 6 General NOL. Multiply line 5 by 50% (.50) **6** _____
- 7 1997 NOL carryover. Add line 2, line 4c and line 6. See instructions **7** _____

PART II NOL carryover and disaster loss carryover limitations. See Instructions.

- 1 Net income (loss) - Enter the amount from Form 100, line 18; Form 109, line 2; or Form 100S, line 16 less line 17 (but not less than -0-) **(g)** Available Balance _____

Prior Year NOLs

(a) Year of loss	(b) Code (See instructions for Part II, Column (b))	(c) Type of NOL (See below)	(d) Initial loss	(e) Carryover from 1996	(f) Amount used in 1997	(g) Available Balance	(h) Carryover to 1998 (col. (e) - col. (f))
2							

Current Year NOLs

3 1997	17	DIS					
4 1997							
1997							
1997							
1997							

Type of NOL: General (GEN), New Business (NB), Eligible Small Business (ESB), Title 11 (T11), or Disaster (DIS).

PART III 1997 NOL deduction

- 1 Total the amounts in column (f) for Part II, line 2, except current year disaster losses. **1** _____
- 2 Enter the total amount from column (f) that represents disaster loss carryovers here and on Form 100, line 21; or Form 100S, line 20. For Form 109, enter -0- **2** _____
- 3 Subtract line 2 from line 1. Enter this amount on Form 100, line 19; Form 109, line 4; or Form 100S, line 18 **3** _____

1997 Instructions for Form FTB 3805Q

Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1997**, and to the California Revenue and Taxation Code (R&TC).

General Information

Due to California legislation enacted in 1997, California tax law conforms to the Internal Revenue Code as of January 1, 1997 and to specific provisions of the Taxpayer's Relief Act of 1997.

Revised definition of "new business" – Effective January 1, 1997, the term "new business" includes any taxpayer engaged in biopharmaceutical activities or other biotechnology activities described in Codes 2833 to 2836 of the Standard Industrial Classification (SIC) Manual. It also includes any taxpayer that has not received regulatory approval for any product from the United States Food and Drug Administration.

A Purpose

Use form FTB 3805Q to figure the current year NOL and to limit NOL and disaster loss carryover deductions.

The California NOL is figured the same way as the federal NOL, except that for California:

- An NOL may be carried over only to future years (no carrybacks are allowed); and
- The carryover period and percentages differ from federal allowances.

Only a portion of the NOL may be eligible for carryover to future years because California has established different categories of NOL. Refer to General Information F.

Note: If the corporation has a current year NOL under R&TC Section 24416.2 (relating to EZ, LAMBRA or LARZ NOLs), it must **elect** to carry over the loss either under that section or the loss under R&TC Section 24416 (relating to general NOLs). The election is irrevocable. Get form

FTB 3805Z, form FTB 3807 or form FTB 3806, for more information.

B Apportioning Corporations

The loss carryover for a corporation that apportions income is the amount of the corporation's loss, if any, after adding income or loss apportioned to California with income or loss allocable to California under Chapter 17 of the Bank and Corporation Tax Law. The loss carryover may be deducted from income apportioned and allocable to California in subsequent years.

C Combined Reporting

Corporations that are members of a unitary group filing a single return must use intrastate apportionment, separately computing the loss carryover for each corporation in the group using their individual apportionment factors (R&TC Section 25108). Complete a separate form FTB 3805Q for each taxpayer included in the combined report. Attach the form FTB 3805Q for **each** taxpayer member included in the combined report **BEHIND** the combined form FTB 3805Q for all members.

Unlike the loss treatment for a federal consolidated return, a California loss carryover for one member in a combined report may not be applied to the income of another member included in the combined report. Get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report, for more information.

D Water's-Edge

Each taxpayer's NOL carryover is limited to the amount determined by recomputing the income and factors of the original worldwide combined

reporting group as if the water's-edge election had been in force for the year of the loss. The NOL carryover may not be increased as a result of the recomputation.

E S Corporations

An S corporation is allowed to carry over a loss that is incurred during a year in which it has in effect a valid election to be treated as an S corporation. The loss is also passed through to the shareholders in the year incurred and is taken into account in determining each shareholder's NOL carryover, if any.

If a corporation changes from a C corporation to an S corporation, the loss incurred while the corporation was a C corporation may not be applied to offset income subject to the 1.5% tax imposed on an S corporation. However, losses incurred while the corporation was a C corporation may be applied against the built-in gains which is subject to tax. If the corporation incurred losses while it was a C corporation and an S corporation, and the S corporation is using C corporation losses to offset its built-in gains, the corporation must complete two forms FTB 3805Q and attach them to Form 100S, California S Corporation Franchise or Income Tax Return. The unused losses incurred while the corporation was a C corporation are "unavailable" except as provided for above until the S corporation reverts back to a C corporation or the carryover period expires.

F Types of NOLs

The following table shows the types of NOL available, a description, and the percentages and carryover periods for each type of loss.

Type of NOL and Description	Year NOL Incurred	NOL Carried Over	Carryover Period
General NOL (GEN) Available as a result of a loss incurred in years after 1986 and allowed under R&TC Section 24416. Does not include losses incurred from activities that qualify as a new business or an eligible small business, an EZ, LARZ, LAMBRA or disaster loss.	1992-1997 1991 1987-1990	50% 50% 50%	5 Years 6 Years 7 Years
New Business NOL (NB) Get Legal Ruling 96-5 for more information. Incurred by a trade or business that first commenced in California on or after January 1, 1994. During the first three years of business, 100% of an NOL may be carried over for an extended period, but only to the extent of the net loss from the new business (see chart). If a taxpayer's NOL exceeds the net loss from the new business, the excess may be carried over as a general NOL. If a taxpayer acquires assets of an existing trade or business which is doing business in California, the trade or business thereafter conducted by the taxpayer or related person is not a new business if the fair market value (FMV) of the acquired assets exceeds 20% of the FMV of the total assets of the trade or business conducted by the taxpayer or any related person. To determine whether the acquired assets exceed 20% of the total assets, include only the assets that continue to be used in the same trade or business activity as they were used in immediately prior to the acquisition. For this purpose, the same trade or business activity means the same division classification listed in the SIC manual, 1987 edition. If a taxpayer or related person has been engaged in a trade or business in California within the preceding 36 months and thereafter commences an additional trade or business in California, the additional trade or business qualifies as a new business only if the activity is classified under a different division of the Standard Industrial Classification (SIC) Manual, 1987 edition. Business activities conducted by the taxpayer or related persons wholly outside California are disregarded in determining whether the trade or business conducted within California is a new business. Related persons are defined in IRC Sections 267 or 318. <i>(continued on next page)</i>	Year of Operation Year 1 Year 2 Year 3	100% 100% 100%	8 Years 7 Years 6 Years

Type of NOL and Description <i>(continued)</i>	Year NOL Incurred	NOL Carried Over	Carryover Period
Eligible Small Business (ESB) Get Legal Ruling 96-5 for more information. Operates a trade or business activity that has gross receipts, less returns and allowances, of less than \$1 million during the income year. 100% of an NOL may be carried over, but only to the extent of the net loss from the eligible small business. If a taxpayer's NOL exceeds the net loss from an eligible small business, the excess may be carried over at 50% as a general NOL.	Income Years Beginning on or After 1/1/94	100%	5 Years
Title 11 Bankruptcy (T11) If the corporation is claiming an NOL carryover deduction under the provisions of R&TC Section 24416(e)(4)(A), enter the carryover amount on Side 1, Part II, line 2.	1987-1993	50%	10 Years
Disaster Losses (DIS) Casualty losses in areas of California declared by the President of the United States or the Governor of California to be in a state of disaster. An election may be made under IRC 165(i) permitting the disaster loss to be taken against the previous year's income. If you made this election, see current year NOLs, Part II, line 3. If special legislation is enacted under R&TC Section 24347.5 and the specified disaster loss exceeds income in the year it is claimed, 100% of the excess may be carried over for up to 5 income years. If any excess loss remains after the 5-year period, 50% of that remaining loss may be carried over for up to 10 additional income years.	See list in the Instructions for Part II	100% 50%	5 Years 10 Years

Specific Line Instructions

Part I

Use Part I of this form to figure the current year NOL, if any, eligible for carryover.

Line 1 – Enter the net loss from Form 100, line 18; Form 109, line 2; or Form 100S, line 16.

Line 2 – If the corporation incurred a disaster loss during 1997, enter the amount of the loss on this line. Enter as a positive number.

Line 3 – If the amount is zero or less the corporation does not have a current year general NOL. Go to Part II for computation of general NOL carryovers, the current year disaster loss and carryover from disaster losses.

Line 7 – Go to Part II, Current Year NOLs, to record your 1997 NOL carryover to 1998. Complete columns (b), (c), (d) and (h) only, for each type of loss that you incurred.

If you have a business that qualifies as a new business or a small business and your NOL is greater than the amount of net loss from such a business, use the general NOL first. If you operate one or more new businesses and one or more eligible small businesses, determine the amount of the loss attributable to the new business(es) and to the small business(es). The NOL deduction will be taken in the following manner. The NOL is first treated as a new business NOL to the extent of the loss from the new business. Any remaining NOL is then treated as an eligible small business NOL to the extent of the loss from the eligible small business. Any further remaining NOL is treated as an NOL under the general rules.

Part II

Use Part II to limit loss carryover deductions to current year income and to record all of the corporation's loss carryover information.

If the corporation has losses from more than one source and/or more than one category, the corporation must compute the allowable NOL carryover for **each** loss separately.

When to use an NOL carryover – Use your NOLs in the order the losses were incurred.

There is no requirement to deduct NOL carryovers before disaster loss carryovers.

Prior Year NOLs

Column (a) – Enter the year the loss was incurred.

Column (b) – If the loss is due to a disaster, enter the disaster code from the list below. If the loss is from a new business or eligible small business, enter the principal business activity code from Question C on Form 100 or Form 100S. If the loss was from a pass-through entity, enter the entity's federal employer identification number from Schedule K-1 (100S).

Column (c) – Enter the type of NOL from the table in General Information F.

Following is a list of events that have been declared disasters:

Year	Code	Event
1997	17	Disaster floods '96/97.
1996		
1996	16	Firestorms '96.*
1995	15	Storms, flooding and other related casualties.
1994	14	San Luis Obispo fire and other related casualties.
1994	13	Los Angeles, Orange, and Ventura County Earthquake and related casualties.
1993	12	Storms, floods and other related casualties.
1992	11	Wildfires and other related casualties in Calaveras and Shasta Counties.
1992	10	San Bernardino County earthquake and other related casualties.
1992	9	Riots, arson and related casualties in California during April and May.
1992	8	Humboldt County earthquake and related casualties.
1992	7	Storms, floods and other related casualties.
1991	6	Oakland/Berkeley fire and other related casualties.
1990	5	Santa Barbara fires and other related casualties.
1989	4	Bay Area earthquake and other related casualties.
1987	3	Forest fires, October earthquake and other related casualties.
1986	2	Storms, floods, and other related casualties.
1985	1	Forest fires and related casualties occurring in California.

*The carryover period is limited to 5 years at 50%, no special legislation was enacted.

Column (d) – Enter the amount of the initial loss for the year given in column (a).

Column (e) – Enter the carryover amount from the 1996 form FTB 3805Q, Part II, column (h).

Column (f) – Enter the smaller of the amount in column (e) or the amount in column (g) of the previous line.

Column (g) – Enter the result of subtracting column (f) from the balance in column (g) of the previous line.

Column (h) – Subtract the amount in column (f) from the amount in column (e) and enter the result.

Current Year NOLs

Line 3, Column (d) – Enter your 1997 disaster loss from Part I, line 2. If you did not elect to deduct your disaster loss in the prior year:

- In column (f), enter the disaster loss used in 1997.
- In column (h), enter column (d) less column (f).

If you elected to deduct your 1997 disaster loss on your 1996 return, and you have an excess amount to be carried over to 1997, enter the carryover amount from your 1996 form FTB 3805Q, Part II, line 3, in Part II, line 2, column (e). Use the Prior Year NOL instructions on the previous page for column (a) through column (h) except:

- In column (a), enter 1997;
- In column (b), enter 17; and
- In column (d), enter the total disaster loss incurred in 1997.

Line 4 – Enter your 1997 NOL from Part I, line 3. If you have different types of NOLs in the current year, list each type of loss separately. Enter the initial loss in column (d) and the loss to be carried over to subsequent years in column (h) for each NOL.

Principal Business Activity Code Chart

Agriculture, Forestry and Fishing

Code

- 0400 Agricultural production
- 0600 Agricultural services (except veterinarians), forestry, fishing, hunting and trapping

Mining

Metal mining

- 1010 Iron ores
- 1070 Copper, lead and zinc, gold and silver ores
- 1098 Other metal mining
- 1150 Coal mining

Oil and gas extraction

- 1330 Crude petroleum, natural gas and natural gas liquids
- 1380 Oil and gas field services

Nonmetallic minerals, except fuels

- 1430 Dimension, crushed and broken stone; sand and gravel
- 1498 Other nonmetallic minerals, except fuels

Construction

General building contractors and operative builders

- 1510 General building contractors
- 1531 Operative builders

1600 Heavy construction contractors

Special trade contractors

- 1711 Plumbing, heating and air conditioning
- 1731 Electrical work
- 1798 Other special trade contractors

Manufacturing

Food and kindred products

- 2010 Meat products
- 2020 Dairy products
- 2030 Preserved fruits and vegetables
- 2040 Grain mill products
- 2050 Bakery products
- 2060 Sugar and confectionary products
- 2081 Malt liquors and malt
- 2088 Alcoholic beverages, except malt liquors and malt
- 2089 Bottled soft drinks and flavorings
- 2096 Other food and kindred products

2100 Tobacco manufacturers

Textile mill products

- 2228 Weaving mills and textile finishing
- 2250 Knitting mills
- 2298 Other textile mill products

Apparel and other textile products

- 2315 Men's and boy's clothing
- 2345 Women's and children's clothing
- 2388 Other apparel and accessories
- 2390 Miscellaneous fabricated textile products

Lumber and wood products

- 2415 Logging, sawmills and planing mills
- 2430 Millwork, plywood and related products
- 2498 Other wood products, including wood buildings and mobile homes

2500 Furniture and fixtures

Paper and allied products

- 2625 Pulp, paper and board mills
- 2699 Other paper products

Printing and publishing

- 2710 Newspapers
- 2720 Periodicals
- 2735 Books, greeting cards and miscellaneous publishing
- 2799 Commercial and other printing and printing trade services

Chemicals and allied products

Code

- 2815 Industrial chemicals, plastics materials and synthetics
- 2830 Drugs
- 2840 Soap, cleaners and toilet goods
- 2850 Paints and allied products
- 2898 Agricultural and other chemical products

Petroleum refining and related industries (including those integrated with extraction)

- 2910 Petroleum refining (including integrated)
- 2998 Other petroleum and coal products

Rubber and misc. plastics products

- 3050 Rubber products, plastics footwear, hose and belting
- 3070 Misc. plastics products

Leather and leather products

- 3140 Footwear, except rubber
- 3198 Other leather and leather products

Stone, clay and glass products

- 3225 Glass products
- 3240 Cement, hydraulic
- 3270 Concrete, gypsum and plaster products
- 3298 Other nonmetallic mineral products

Primary metal industries

- 3370 Ferrous metal industries; misc. primary metal products
- 3380 Nonferrous metal industries

Fabricated metal products

- 3410 Metal cans and shipping containers
- 3428 Cutlery, hand tools and hardware; screw machine products, bolts and similar products
- 3430 Plumbing and heating, except electric and warm air
- 3440 Fabricated structural metal products
- 3460 Metal forgings and stampings
- 3470 Coating, engraving and allied services

- 3480 Ordnance and accessories, except vehicles and guided missiles
- 3490 Misc. fabricated metal products

Machinery, except electrical

- 3520 Farm machinery
- 3530 Construction and related machinery
- 3540 Metalworking machinery
- 3550 Special industry machinery
- 3560 General industrial machinery
- 3570 Office, computing and accounting machines
- 3598 Other machinery except electrical

Electrical and electronic equipment

- 3630 Household appliances
- 3665 Radio, television and communication equipment
- 3670 Electronic components and accessories
- 3698 Other electrical equipment

3710 Motor vehicles and equipment

Transportation equipment, except motor vehicles

- 3725 Aircraft, guided missiles and parts
- 3730 Ship and boat building and repairing
- 3798 Other transportation equipment, except motor vehicles

Instruments and related products

- 3815 Scientific instruments and measuring devices; watches and clocks
- 3845 Optical, medical and ophthalmic goods
- 3860 Photographic equipment and supplies

3998 Other manufacturing products

Transportation and Public Utilities

Transportation

Code

- 4000 Railroad transportation
- 4100 Local and interurban passenger transit
- 4200 Trucking and warehousing
- 4400 Water transportation
- 4500 Transportation by air
- 4600 Pipe lines, except natural gas
- 4700 Miscellaneous transportation services

Communication

- 4825 Telephone, telegraph and other communication services
- 4830 Radio and television broadcasting

Electric, gas and sanitary services

- 4910 Electric services
- 4920 Gas production and distribution
- 4930 Combination utility services
- 4990 Water supply and other sanitary services

Wholesale Trade

Durable

- 5008 Machinery, equipment and supplies
- 5010 Motor vehicles and automotive equipment
- 5020 Furniture and home furnishings
- 5030 Lumber and construction materials
- 5040 Sporting, recreational, photographic and hobby goods, toys and supplies
- 5050 Metals and minerals, except petroleum and scrap
- 5060 Electrical goods
- 5070 Hardware, plumbing and heating equipment and supplies
- 5098 Other durable goods

Nondurable

- 5110 Paper and paper products
- 5129 Drugs, drug proprietaries and druggists' sundries
- 5130 Apparel, piece goods and notions
- 5140 Groceries and related products
- 5150 Farm-product raw materials
- 5160 Chemicals and allied products
- 5170 Petroleum and petroleum products
- 5180 Alcoholic beverages
- 5190 Misc. nondurable goods

Retail Trade

Building materials, garden supplies and mobile home dealers

- 5220 Building materials dealers
- 5251 Hardware stores
- 5265 Garden supplies and mobile home dealers

5300 General merchandise stores

Food stores

- 5410 Grocery stores
- 5490 Other food stores

Automotive dealers and service stations

- 5515 Motor vehicle dealers
- 5541 Gasoline service stations
- 5598 Other automotive dealers

5600 Apparel and accessory stores

5700 Furniture and home furnishings stores

5800 Eating and drinking places

Misc. retail stores

- 5912 Drug stores and proprietary stores
- 5921 Liquor stores
- 5995 Other retail stores

Finance, Insurance and Real Estate

Banking

Code

- 6030 Mutual savings banks
- 6060 Bank holding companies
- 6090 Banks, except mutual savings banks and bank holding companies

Credit agencies other than banks

- 6120 Savings and loan associations
- 6140 Personal credit institutions
- 6150 Business credit institutions
- 6199 Other credit agencies

Security, commodity brokers and services

- 6210 Security brokers, dealers and flotation companies
- 6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

Insurance

- 6355 Life insurance
- 6356 Mutual insurance, except life or marine and certain fire or flood insurance companies
- 6359 Other insurance companies
- 6411 Insurance agents, brokers and service

Real estate

- 6511 Real estate operators and lessors of buildings
- 6516 Lessors of mining, oil and similar property
- 6518 Lessors of railroad property and other real property
- 6530 Condominium management and cooperative housing associations
- 6550 Subdividers and developers
- 6599 Other real estate

Holding and other investment companies, except bank holding companies

- 6744 Small business investment companies
- 6749 Other holding and investment companies except bank holding companies

Services

7000 Hotels and other lodging places

7200 Personal services

Business services

- 7310 Advertising
- 7389 Business services, except advertising

Auto repair; misc. repair services

- 7500 Auto repair and services
- 7600 Misc. repair services

Amusement and recreation services

- 7812 Motion picture production, distribution and services
- 7830 Motion picture theaters
- 7900 Amusement and recreation services, except motion pictures

Other services

- 8015 Offices of physicians, including osteopathic physicians
- 8021 Offices of dentists
- 8040 Offices of other health practitioners
- 8050 Nursing and personal care facilities
- 8060 Hospitals
- 8071 Medical laboratories
- 8099 Other medical services
- 8111 Legal services
- 8200 Educational services
- 8300 Social services
- 8600 Membership organizations
- 8911 Architectural and engineering services
- 8930 Accounting, auditing and bookkeeping
- 8980 Miscellaneous services (including veterinarians)

Form 100S c1 1997 **Side 1**

Schedule F Computation of Trade or Business Income See General Information I.

Income	1 a) Gross receipts or sales _____ b) Less returns and allowances _____ Balance	1c	
	2 Cost of goods sold	2	
	3 Gross profit. Subtract line 2 from line 1c	3	
	4 Net gain (loss)	4	
	5 Other income (loss). Attach schedule ●	5	
	6 Total income (loss). Combine line 3 through line 5.	6	
Deductions	7 Compensation of officers. Attach schedule. See instructions	7	
	8 Salaries and wages ●	8	
	9 Repairs	9	
	10 Bad debts	10	
	11 Rents ●	11	
	12 Taxes	12	
	13 Interest	13	
	14 a) Depreciation _____ b) Less depreciation reported elsewhere on return _____ Balance ●	14	
	15 Depletion	15	
	16 Advertising	16	
	17 Pension, profit-sharing, etc. plans	17	
	18 Employee benefit programs	18	
	19 a) Total travel and entertainment _____ b) Deductible amount	19b	
	20 Other deductions. Attach schedule. ●	20	
	21 Total deductions. Add line 7 through line 20 ●	21	
	22 Ordinary income (loss) from trade or business. Subtract line 21 from line 6. Enter here and on Side 1, line 1 ●	22	

Schedule V Cost of Goods Sold

1 Inventory at beginning of year		5 Other costs. Attach schedule	
2 Purchases ●		6 Total. Add line 1 through line 5.	
3 Cost of labor ●		7 Inventory at end of year.	
4 Other IRC Sec. 263A costs. Attach schedule ●		8 Cost of goods sold. Subtract line 7 from line 6 ●	

Was there any substantial change in the manner of determining quantities, costs or valuations between opening and closing inventory? . . . ☐ Yes ☐ No

If "Yes," attach an explanation. Enter California seller's permit number, if any ► _____ Method of inventory valuation _____

Check if the LIFO inventory method was adopted this income year for any goods. If checked, attach federal Form 970 ● ☐

If the LIFO inventory method was used for this income year, enter the amount of closing inventory computed under LIFO. ● _____

Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the corporation? ☐ Yes ☐ No

Schedule J Add-On Taxes or Recapture of Tax Credits. See instructions.

1 LIFO recapture due to S corporation election (IRC Sec. 1363(d) deferral — \$ _____). ●	1	
2 Interest computed under the look-back method for completed long-term contracts (Attach FTB 3834) ●	2	
3 Interest on tax attributable to installment: a) Sales of certain timeshares and residential lots ●	3a	
b) Method for nondealer installment obligations ●	3b	
4 IRC Section 197(f)(9)(B)(ii) election ●	4	
5 Credit recapture name: _____ ●	5	
6 Combine line 1 through line 5. Revise the amount on Side 1, line 38 or line 39, whichever applies, by this amount. Write "Schedule J" to the left of line 38 or line 39 ●	6	

E Check here if the corporation does not need tax forms mailed next year ● ☐

F Date incorporated: _____ ● Where: State _____ Country _____

G Maximum number of shareholders in the corporation at any time during the year ● _____

H Date business began in California or date income was first derived from California sources: ● _____

I Is the corporation under audit by the IRS or has it been audited in a prior year? ● ☐ Yes ☐ No

J Effective date of federal S election: ● _____

K Effective date of California S election: ● _____

L Accounting method: ● (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other

M Location of principal accounting records: _____

N "Doing business as" name: ● _____

O Have all required information returns (e.g. federal Form 1099, 8300, etc.) been filed with the Franchise Tax Board? . . . ☐ N/A ☐ Yes ☐ NoP Is this corporation apportioning income to California using Schedule R? ● ☐ Yes ☐ NoQ During the income year, were gross receipts (less returns and allowances) of this corporation more than \$1 million? ● ☐ Yes ☐ No

Please Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Signature of officer	Title	Date	Telephone
Paid Preparer's Use Only	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN/FEIN
	Firm's name (or yours, if self-employed) and address ► _____	FEIN	Telephone	

Schedule K S Corporation Shareholders' Shares of Income, Deductions, Credits, etc.

	(a) Pro rata share items	(b) Amount from federal Schedule K (1120S)	(c) California adjustment	(d) Total amount using California law Combine (b) and (c) where applicable
Income (Loss)	1 Ordinary income (loss) from trade or business activities			●
	2 Net income (loss) from rental real estate activities			●
	3 a Gross income from other rental activities.			
	b Expenses from other rental activities. Attach schedule			
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a			●
	4 Portfolio income (loss):			
	a Interest			●
	b Dividends			●
	c Royalties			●
	d Net short-term capital gain (loss). Attach Schedule D (100S)			●
	e Net long-term capital gain (loss). Attach Schedule D (100S)			●
f Other portfolio income (loss). Attach schedule			●	
5 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft) .			●	
6 Other income (loss). Attach schedule			●	
Deductions	7 Charitable contributions			●
	8 Expense deduction for recovery property (R&TC Section 17267.2, Section 17266 and Section 17268 and IRC Section 179). Attach Schedule B (100S)			
	9 Deductions related to portfolio income (loss). Attach schedule			●
Investment Interest	10 Other deductions. Attach schedule			
	11 a Interest expense on investment debts			●
	b (1) Investment income included on lines 4a through 4f above			
	(2) Investment expenses included on line 9 above.			
Tax Credits	12 a Low-income housing credit. See instructions. Attach schedule			●
	b Credits related to rental real estate activities other than on line 12(a). Attach schedule			●
	c Credits related to other rental activities. See instructions. Attach schedule .			●
	13 Other credits. Attach schedule			●
Adjustments and Tax Preference Items	14 a Depreciation adjustment on property placed in service after 12/31/86. . . .			
	b Adjusted gain or loss. See instructions.			
	c Depletion (other than oil and gas)			
	d (1) Gross income from oil, gas and geothermal properties			
	(2) Deductions allocable to oil, gas and geothermal properties			
e Other adjustments and tax preference items. Attach schedule				
Other State Taxes	15 a Type of income _____			
	b Name of state _____			
	c Total gross income from sources outside California. Attach schedule			
	d Total applicable deductions and losses. Attach schedule.			
	e Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued			●
Other Items	16 a Total expenditures to which an IRC Section 59(e) election may apply			
	b Type of expenditures _____			
	17 Tax-exempt interest income.			
	18 Other tax-exempt income			
	19 Nondeductible expenses.			
	20 Total property distributions (including cash) other than dividend distributions reported on line 22 below			●
	21 Other items and amounts not included in line 1 through line 20 above that are required to be reported separately to shareholders. Attach schedule.			●
	22 Total dividend distributions paid from accumulated earnings and profits .			●
	23 Income (loss) (required only if Schedule M-1 must be completed). Combine line 1, line 2 and line 3c through line 6. From the result, subtract the sum of line 7 through line 11a and line 16a			



Schedule L Balance Sheets		Beginning of income year		End of income year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash				
2	a Trade notes and accounts receivable				
	b Less allowance for bad debts	()		()	
3	Inventories				●
4	Federal and state government obligations				
5	Other current assets. Attach schedule(s)				
6	Loans to shareholders. Attach schedule(s)				●
7	Mortgage and real estate loans				
8	Other investments. Attach schedule(s)				●
9	a Buildings and other fixed depreciable assets				
	b Less accumulated depreciation	()		()	●
10	a Depletable assets				
	b Less accumulated depletion	()		()	
11	Land (net of any amortization)				●
12	a Intangible assets (amortizable only)				
	b Less accumulated amortization	()		()	
13	Other assets. Attach schedule(s)				
14	Total assets.		●		●
Liabilities and shareholders' equity					
15	Accounts payable				
16	Mortgages, notes, bonds payable in less than 1 year				
17	Other current liabilities. Attach schedule(s)				
18	Loans from shareholders. Attach schedule(s)				●
19	Mortgages, notes, bonds payable in 1 year or more				
20	Other liabilities. Attach schedule(s)				
21	Capital stock		●		●
22	Paid-in or capital surplus		●		●
23	Retained earnings		●		●
24	Adjustments to shareholders' equity. Attach schedule(s)				
25	Less cost of treasury stock		()		()
26	Total liabilities and shareholders' equity				

Schedule M – 1 **Reconciliation of income (loss) per books with income (loss) per return** Do not complete this schedule if the amount on Schedule L, line 14, column (d), is less than \$25,000.

1	Net income per books		5	Income recorded on books this year not included on Schedule K, line 1 through line 6 (itemize)	
2	Income included on Schedule K, line 1 through line 6, not recorded on books this year (itemize)_____		a	Tax-exempt interest \$_____	
3	Expenses recorded on books this year not included on Schedule K, line 1 through line 11a and line 16a (itemize)		6	Deductions included on Sch. K lines 1 through 11a and line 16a, not charged against book income this year (itemize)	
a	Depreciation \$_____		a	Depreciation \$_____	
b	State taxes \$_____		b	State tax refunds . . \$_____	
c	Travel and entertainment \$_____		7	Total. Add line 5 and line 6	
4	Total. Add line 1 through line 3.		8	Income (loss) (Sch. K, line 23, col. d). Line 4 less line 7 . . .	

Schedule M – 2 **CA accumulated adjustments account, other adjustments account, and other retained earnings** See instructions.

Important: Use California figures and federal procedures.		(a) Accumulated adjustments account	(b) Other adjustments account	(c) Other retained earnings (see instructions)
1	Balance at beginning of year. ●			
2	Ordinary income from Form 100S, Side 1, line 1			
3	Other additions			
4	Loss from Form 100S, Side 1, line 1	()		
5	Other reductions	()	()	
6	Combine line 1 through line 5.			
7	Distributions other than dividend distributions. ●			
8	Balance at end of year. Subtract line 7 from line 6 ●			
9	Retained earnings at end of year. Add line 8, column (a) through column (c) ●			
● <input type="checkbox"/> If the corp. has C corp. E&P at the end of the income year, check the box and enter the amount. See instructions ●				

1997 S Corporation Depreciation and Amortization

B (100S)

For use by S corporations only. Attach to Form 100S.

Corporation name as shown on Form 100S

California corporation number

Part I Depreciation. Use additional sheet(s) if necessary.

1 Enter federal depreciation from federal Form 4562, line 21 1

2 California depreciation:

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Depreciation allowed or allowable in earlier years	(e) Method of figuring dep.	(f) Life or rate	(g) Depreciation for this year

3 Add the amounts on line 2, column (g) 3

4 Subtract line 3 from line 1. Enter here and on Form 100S, Side 1, line 5 and on the applicable line of Schedule K 4

5a Enter the IRC 179 expense for California purposes. Enter here and on Form 100S, Side 1, line 13. Do not enter more than \$13,000 5a

5b Enter the IRC Section 179 expense for federal purposes. Do not enter more than \$18,000 5b

5c Subtract line 5b from line 5a. Enter here and on Schedule K, line 8, column (c) 5c

Part II Amortization. Use additional sheet(s) if necessary.

1 Enter federal amortization from federal Form 4562, line 42 1

2 California amortization:

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Amortization allowed or allowable in earlier years	(e) R&TC section	(f) Period or percentage	(g) Amortization for this year

3 Add the amounts on line 2, column (g) 3

4 CA amortization adj. Subtract line 3 from line 1. Enter here, on Form 100S, Side 1, line 5, and on the applicable line of Sch. K 4

1997 S Corporation Tax Credits

C (100S)

See instructions for Form 100S, General Information Y, Z and AA.
Be sure to complete and attach all supporting credit forms.

	(a) Credit amount limited to 1/3 of total	(b) Carryover from prior year	(c) Credit used this year (not more than (a) + (b))	(d) Tax balance	(e) Credit carryover to 1998
1 Regular tax from form 100S, Side 1, line 22					
2 Minimum franchise tax and/or QSSS annual tax, if applicable					
3 Subtract line 2 from line 1. If zero, or less, enter -0-					
4 Code: _____ Credit Name: _____					
5 Code: _____ Credit Name: _____					
6 Code: _____ Credit Name: _____					
7 Code: _____ Credit Name: _____					
8 Code: _____ Credit Name: _____					
9 Enter the credit amounts on Form 100S, line 23, line 24 or line 25. If more than 3 credits, enter the total remaining credits on line 26					

1997

S Corporation Capital Gains and Losses and Built-In Gains

D (100S)

Corporation name as shown on Form 100S

California corporation number

SECTION A – 8.84% Tax on Certain Capital Gains and Built-In Gains**Part I Short-Term Capital Gains and Losses — Assets Held One Year or Less.** Use additional sheet(s) if necessary.

1	(a) Description of property (Example: 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost or other basis, plus expense of sale	(f) Gain (loss) ((d) less (e))
2	Short-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824					2
3a	Net short-term capital gain (loss). Combine line 1 and line 2 and enter here and on Form 100S, Side 1, line 4					3a
3b	Tax on short-term capital gain(s) included on line 21 below					3b
3c	Subtract line 3b from line 3a. Enter this amount on Form 100S, Schedule K, line 4d or line 6					3c

Part II Long-Term Capital Gains and Losses — Assets Held More Than One Year. Use additional sheet(s) if necessary.

4						
5	Long-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824					5
6a	Net long-term capital gain (loss). Combine line 4 and line 5 and enter here and on Form 100S, Side 1, line 4					6a
6b	Tax on long-term capital gain(s) included on line 15 and line 21 below					6b
6c	Subtract line 6b from line 6a. Enter this amount on Form 100S, Schedule K, line 4e or line 6					6c

Part III Tax on Certain Capital Gains. See instructions before completing this part.

7	Enter IRC Section 1231 gain from Schedule D-1, line 9	7	
8	Net long-term capital gain (loss). Combine line 6a and 7 and enter here. Note: If the corporation is liable for the excess net passive income tax (Form 100S, Side 1, line 29) or the built-in gains tax (Part IV below), see the line 15 instruction for federal Schedule D (Form 1120S) before completing line 9.	8	
9	Net capital gain. Enter excess net long-term capital gain (line 8) over net short-term capital loss (line 3c)	9	
10	Statutory minimum	10	\$25,000
11	Subtract line 10 from line 9	11	
12	Multiply line 11 by 8.84% (calendar year financial S corporations must use 10.84%)	12	
13	Taxable income. See instructions for federal Schedule D (Form 1120S). Use California amounts	13	
14	Multiply line 13 by 8.84% (calendar year financial S corporations must use 10.84%)	14	
15	Tax on certain capital gains. Enter smaller of line 12 or line 14 here and on Form 100S, Side 1, line 29	15	

Part IV Tax on Built-In Gains. See instructions before completing this part.

16	Excess of recognized built-in gains over recognized built-in losses attributable to California. Attach computation schedule	16
17	Taxable income. See the instructions for federal Schedule D (Form 1120S). Use California amounts	17
18	Enter the smaller of line 16 or line 17	18
19	Net operating loss (NOL) carryover deduction from years the corporation was a C corporation (IRC Section 1374(b)(2)) (limited to the amount allowable for state purposes). Attach the NOL form from the appropriate year. See instructions	19
20	Subtract line 19 from line 18. If zero or less, enter -0- here and on line 21	20
21	Tax on built-in gains. Multiply line 20 by 8.84% (financial S corps. must use 10.84%). Enter here and on Form 100S, Side 1, line 29	21

SECTION B – 1.5% Tax on Capital Gains**Part I Short Term Capital Gains and Losses — Assets Held One Year or Less.** Use additional sheet(s) if necessary.

1	(a) Kind of property and description (Example: 100 shares of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost or other basis, plus expense of sale	(f) Gain (loss) ((d) less (e))
2	a Short-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824	2a				
	b Unused capital loss carryover from 1996 attributable to the S Corporation	2b				
3	Net short-term capital gain (loss). Combine line 1 through line 2b. Enter here and on Form 100S, Schedule K, line 4d or line 6	3				

Part II Long-Term Capital Gains and Losses — Assets Held More Than One Year. Use additional sheet(s) if necessary.

4						
5	Enter gain from Schedule D-1, line 7 or line 9					5
6	Long-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824					6
7	Net long-term capital gain (loss). Combine lines 4 through 6. Enter here and on Form 100S, Schedule K, line 4e or line 6					7
8	Enter excess of net short-term capital gain (line 3) over net long-term capital loss (line 7)					8
9	Net capital gain. Enter excess of net long-term capital gain (line 7) over net short-term capital loss (line 3)					9
10	Total lines 8 and 9. Enter here and on Form 100S, Side 1, line 4. Note: If losses exceed gains, carry forward losses to 1998					10

1997 Dividend Income Deduction

H

See instructions for Schedule H. Use and attach additional sheets if necessary.

Part I Deduction For Intercompany Dividends (R&TC 25106)

(a) Dividend Payer	(b) Type of stock (Common or Preferred)	(c) Total Amount of Dividends Received	(d) Amount that qualifies for 100% deduction	(e) Amount from column (d) paid out of current year E&P	(f) Amount from column (d) paid out of prior year E&P	(g) Balance column (c) minus column (d)
1)						
2)						
3)						
4)						
5)						
6)						
7 Total amounts in each column. Enter amount from Part I, column (d) on Form 100S, Side 1, line 9						

Part II Deduction For Dividends Paid By A Corporation Taxed By California (R&TC 24402)

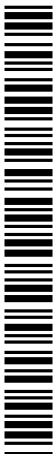
(a) Dividend Payer	(b) Dividends From Part I, column (g) paid by CA taxpayer	(c) FEIN or California corporation no. of dividend payer	(d) Percentage of ownership of dividend payer	(e) Limitation Percentage (see instructions)	(f) Percentage of dividends deductible	(g) Deductible Dividends (b)(e)(f)
1)						
2)						
3)						
4)						
5)						
6)						
7 Total amount in column (g)						

Part III Deduction For Dividends Paid To A California Corporation By An Insurance Company (R&TC 24410)

(a) Dividend Payer	(b) Dividend payee	(c) California corporation no. of dividend payee	(d) Percentage of ownership of dividend payer	(e) Amount of qualified insurance dividends received from Part I, col. (g)	(f) Apportionment factors of insurance company	(g) Deductible dividends – multiply col. (e) by col. (f)
1)						
2)						
3)						
4)						
5)						
6)						
7 Total amount in column (g)						
8 Add amounts from Part II, column (g) and Part III, column (g). Enter the result on Form 100S, Side 1, line 9						

Part IV Deduction For qualified Dividends Paid To A Fully Included Member Of a Water's-Edge Combined Report (R&TC 24411)

(a) Dividend Payer	(b) Member of Water's-Edge Combined Reporting Group Dividend was paid to (payee)	(c) Amount of qualified dividends received by payee from Part I, column (g)	(d) Amount from col. (c) paid out of current year Earnings & Profits	(e) Amount from col. (c) paid out of prior year earnings and profits	(f) Deductible dividends – multiply col. (c) by .75
1)					
2)					
3)					
4)					
5)					
6)					
7 Total amount in column (f). Enter total from Part IV, column (f) on Form 100S, Side 1, line 10					



1997

Shareholder's Share of Income,
Deductions, Credits, etc.

K-1 (100S)

For use by an S corporation and its shareholders only.

For calendar year 1997 or fiscal year beginning **M M D D 1 9 9 7**, and ending **M M D D 1 9 Y Y**.

Shareholder's identifying number California corporation number

Shareholder's name, address and ZIP code Corporation's name, address and ZIP code

A Shareholder's percentage of stock ownership at income year end ● _____ %

B Tax shelter registration number _____ Type: _____

C Check here if this is: ● (1) ☐ A final Schedule K-1 (2) ☐ An amended Schedule K-1D What type of entity is this shareholder? ● (1) ☐ Individual (2) ☐ Estate/TrustE Is this shareholder a nonresident of California? ► ☐ Yes ● ☐ No**Caution:** Refer to the separate shareholder's instructions for Schedule K-1 (100S) before entering information from this schedule on your tax return.

	(a) Pro rata share items	(b) Amount from federal Schedule K-1 (1120S)	(c) California adjustment	(d) Total amounts using California law. Combine (b) and (c) where applicable	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities.			●	►
	2 Net income (loss) from rental real estate activities.			●	►
	3 Net income (loss) from other rental activities.				
	4 Portfolio income (loss):				
	a Interest			●	►
	b Dividends			●	►
	c Royalties			●	►
	d Net short-term capital gain (loss)			●	►
	e Net long-term capital gain (loss)			●	►
	f Other portfolio income (loss). Attach schedule			●	►
5 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft)			●	►	
6 Other income (loss). Attach schedule			●	►	
Deductions	7 Charitable contributions				
	8 Expense deduction for recovery property (R&TC Sections 17266, 17267.2 and 17268 and IRC Section 179). Attach schedule				
	9 Deductions related to portfolio income (loss). Attach schedule				
	10 Other deductions. Attach schedule				
Investment Interest	11 a Interest expense on investment debts.			●	►
	b (1) Investment income included on line 4a through line 4f above (2) Investment expenses included on line 9 above.				
Tax Credits	12 a Low-income housing credit. See instructions. Attach schedule.			●	►
	b Credits related to rental real estate activities other than on line 12(a). Attach schedule.			●	►
	c Credits related to other rental activities. See instructions. Attach schedule.			●	►
	13 Other credits. Attach schedule			●	►

	(a) Pro rata share items	(b) Amount from federal Schedule K-1 (1120S)	(c) California adjustment	(d) Total amounts using California law. Combine (b) and (c) where applicable	(e) California source amounts and credits
Adjustments and Tax Preference Items	14 a Depreciation adjustment on property placed in service after 12/31/86				
	b Adjusted gain or loss				
	c Depletion (other than oil and gas)				
	d (1) Gross income from oil, gas and geothermal properties				
	(2) Deductions allocable to oil, gas and geothermal properties				
	e Other adjustments and tax preference items. Attach schedule				
Other State Taxes	15 a Type of income _____				
	b Name of state _____				
	c Total gross income from sources outside California. Attach schedule				
	d Total applicable deductions and losses. Attach schedule				
	e Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued			●	▶
Other Items	16 a Total expenditures to which an IRC Section 59(e) election may apply				
	b Type of expenditures _____				
	17 Tax-exempt interest income				
	18 Other tax-exempt income				
	19 Nondeductible expenses				
	20 Total taxable dividend distribution paid from accumulated earnings and profits		●	▶	
	21 Property distributions (including cash) other than dividend distributions reported to you on federal Form 1099-DIV		●	▶	
22 Amount of loan repayments for "Loans from Shareholders"		●	▶		
Supplemental Information	23 Supplemental information that is required to be reported separately to each shareholder. Attach additional sheet(s) if necessary.				
	Table 1 — Each shareholder's share of nonbusiness income from intangibles Interest \$ _____ Royalties \$ _____ Dividends \$ _____ 1231 Gains/Losses \$ _____ Capital Gains/Losses \$ _____ Other \$ _____				

FOR USE BY APPORTIONING UNITARY SHAREHOLDERS ONLY

Table 2 — Unitary shareholder's pro rata share of business income and factors

- A. Shareholder's share of the S corporation's business income. See instructions. \$ _____
- B. Shareholder's share of nonbusiness income from real and tangible property sourced or allocable to California:
- Capital Gains/Losses \$ _____ Rents/Royalties \$ _____
1231 Gains/Losses \$ _____ Other \$ _____
- C. Shareholder's share of the S corporation's property, payroll and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	\$	\$
Ending	\$	\$
Payroll	\$	\$
Sales	\$	\$

1997 S Corporation's List of Shareholders and Consents

3830

For use by S corporations with one or more nonresident shareholders or trusts with nonresident fiduciaries. Attach to Form 100S and give a copy to each nonresident shareholder or fiduciary. Use additional sheet(s) if necessary.

Corporation name	California corporation number

Note: Completion of this form does not satisfy the requirements for filing an individual income tax return for California.

List below the names and identification numbers of shareholders of record at the end of the corporation's income year.

Number	Shareholder's name	Only nonresident shareholders and nonresident fiduciaries must sign: I consent to the jurisdiction of the State of California to tax my pro rata share of the S corporation income attributable to California sources.		Shareholder's Social security no./Federal employer identification no.
		Signature	Date	
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				

List below the names and identification numbers of shareholders who sold or transferred their ownership interest before the end of the corporation's income year.

Number	Shareholder's name	Only nonresident shareholders and nonresident fiduciaries must sign: I consent to the jurisdiction of the State of California to tax my pro rata share of the S corporation income attributable to California sources.		Shareholder's Social security no./Federal employer identification no.
		Signature	Date	
1				
2				
3				
4				
5				

General Information

A Purpose

When an S corporation has one or more shareholders who are nonresidents of California, or trusts with nonresident fiduciaries, use form FTB 3830 to:

- List the names and social security numbers or federal employer identification numbers of all shareholders; and
- Obtain the signature of each nonresident shareholder or fiduciary evidencing consent to the jurisdiction of California to tax their pro rata share of income attributable to California sources. For ease in gathering proper signatures, multiple copies of

the form FTB 3830 may be used. All shareholders need not sign on one form.

Caution: Failure to complete this form is grounds for the Franchise Tax Board to retroactively revoke the S corporation election. (R&TC Section 23801(b)).

B Nonresidents Who Must File a California Return

If you are a nonresident shareholder, in addition to signing form FTB 3830, you may also need to file Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. Form 540NR must be filed if you had income from California sources and:

- You were single or unmarried in 1997 and your gross income from all sources was more than \$10,384; or adjusted gross income from all sources was more than \$8,307; or

- You were married in 1997, and you and your spouse had a combined gross income from all sources, of more than \$20,768; or adjusted gross income from all sources of more than \$16,614, or
- You can be claimed as a dependent as set in Internal Revenue Code (IRC) Section 63(c)(5) when the individual's gross income from all sources exceeds the standard deduction allowed under the IRC; or
- If you owe the state of California \$1 or more of tax. (R&TC Section 18507).

C Group Nonresident Shareholder Return

Nonresident shareholders of an S corporation doing business in California may elect to file a group nonresident return using Form 540NR. For more information, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

Shareholder's Instructions for Schedule K-1 (100S)

For S Corporation Shareholder's Use Only

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 1997 and to the California Revenue and Taxation Code (R&TC).

Purpose

The S corporation uses Schedule K-1 (100S) to report your share of the S corporation's income, deductions, credits, etc. Please keep a copy of it for your records.

Although the S corporation is subject to various taxes, you are liable for the income tax on your share of the S corporation's income, whether or not distributed, and you must include your share on your individual tax return.

The amount of losses and deductions that you may claim on your individual tax return may be less than the amount reported on Schedule K-1 (100S). Generally, the amount of losses and deductions you may claim is limited to your basis in the S corporation, debt owed to you by the S corporation and the amount for which you are considered at-risk. If the S corporation has losses, deductions or credits from a passive activity, you must also apply the passive activity rules. It is your responsibility to consider and apply any applicable limitations. See Limitations on Losses, Deductions and Credits. Use these instructions to help you report the items shown on Schedule K-1 (100S) on your California tax return.

For the line items where "attach schedule" appears, the S corporation should have provided additional information applicable to that line or the S corporation should have made an entry on Side 2, line 23.

Nonresident shareholders of an S corporation that is doing business in California may qualify to file a group nonresident return on Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. For more information on the election to file a group nonresident return, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

Line 1 through Line 22

If you are an individual shareholder, take the amounts in column (c) that are from nonpassive activities and enter these amounts on the appropriate form or schedule as explained in these instructions.

Report the amounts in column (d) or column (e) that are from passive activities on the California form or schedule where they are normally reported. Bring the total amounts figured on the appropriate California form or schedule to form FTB 3801, Passive Activity Loss Limitations, to figure the amount of your passive activity loss limitation. Then transfer the passive activity loss back to the form or schedule it is normally reported on to figure your California adjustment amount. Enter this adjustment amount on the corresponding line of Schedule CA (540 or 540NR), California

Adjustments, or Form 541, California Fiduciary Income Tax Return.

If there is no California schedule or form to figure your passive activity loss adjustment amount on (i.e., rental loss from passive activities), you may figure the adjustment amount on the California Adjustment Worksheet in the instructions for form FTB 3801. Enter the total of your adjustments from all passive activities from line 1 and line 2 of this worksheet on Schedule CA (540 or 540NR), as applicable.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, these carryforward losses, deductions and credits may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior year amounts with any amounts shown on this Schedule K-1 (100S) to get a net figure to report on any supporting schedules, statements or forms attached to your return. Instead, report the amounts on an attached schedule, statement or form on a year-by-year basis.

Line 1 through Line 3

The amounts shown on line 1 through line 3 reflect your share of income or loss from the S corporation's business or rental operations without reference to your limitations on losses or adjustments that may be required because of:

- The adjusted basis of your S corporation ownership interest;
- The amount for which you are at-risk as determined under IRC Section 465; and
- The passive activity limitations of IRC Section 469.

See the federal Schedule K-1 (Form 1120S) instructions for line 1 through line 3 for more information.

Limitations on Losses, Deductions and Credits

Basis rules

Generally, you may not claim your share of the S corporation loss (including capital loss) that is larger than the adjusted basis of your shareholder interest at the end of the S corporation's income year.

Basis is increased by:

1. All income (including tax-exempt income) reported on Schedule K-1 (100S).

Note: Taxable income must be reported on your tax return (if a return is required) for it to increase your basis.

2. Money and adjusted basis in property contributed to the corporation.

3. The excess of the deduction for depletion over the adjusted basis of the property subject to depletion.

Basis is decreased by:

1. Fair market value of property distributions (including cash) made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1 (100S), line 21.
2. All losses and deductions (including non-deductible expenses) reported on Schedule K-1 (100S).

These items are not a complete list of factors that determine basis.

At-risk rules

Generally, if you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the corporation; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. For California purposes, you must complete federal Form 6198 using California amounts.

The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as IRC Section 179 or R&TC Sections 17266, 17267.2 and 17268 deductions) that you may claim to the amount you could actually lose in the activity. See the federal Schedule K-1 (Form 1120S) instructions for At-Risk Limitations for more information.

Passive activity limitations

Caution: During 1993, the U.S. Congress made changes to the passive activity loss provisions of the IRC relating to real estate professionals. California has not conformed to those changes.

California tax law conforms to federal IRC Section 469 rules that limit the deduction of certain losses and credits.

These rules apply to shareholders who:

- Are individuals, estates or trusts; and
- Have a loss or credit from a passive activity.

A passive activity is generally a rental activity or a trade or business activity in which the shareholder does not materially participate.

If you have a loss or deductions from a passive activity, you will need to complete form FTB 3801 to figure the allowable amounts to report on your individual return. You will also need to complete form FTB 3801 if you have passive activity income from this S corporation and passive activity loss or deduction from another source.

The amounts reported on line 2 and line 3 of Schedule K-1 (100S) are from rental activities of the S corporation and are generally passive activity income (loss) to all shareholders.

There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The S corporation will identify any of these qualified amounts on an attachment for line 2.

Passive activity credits are also limited to passive income. See the instructions for line 13.

California Adjustment — Column (c)

Use this column to account for your proportionate share of the differences in the computation of federal and California income.

The major items are:

- California minimum franchise tax;
- Depreciation expense due to different basis of the assets or depreciation method used;
- Gain or loss on sale of assets due to the effects of different depreciation methods or basis; and
- Government bond interest income:
 - a) U.S. bond interest is taxable for federal purposes but not for California purposes; and
 - b) State bond interest (other than from California bonds) is taxable for California purposes but not for federal purposes.

Total amounts using California law — Column (d) and California source amounts and credits — Column (e)

Shareholders who are California residents will use amounts shown in column (d) because California resident individuals are subject to personal income tax on all income from whatever source derived (R&TC Section 17041). Nonresident shareholders who do not conduct a trade or business that is unitary with the S corporation should use the amounts in column (c), column (d) (for total income purposes), column (e) (for California source income purposes) and Table 1. If the nonresident shareholder conducts a unitary business with the S corporation, data in column (e) should not be used. Instead, the shareholder must combine its share of the S corporation's income with the income from its trade or business and apportion that income using an apportionment percentage consisting of a combination of the factors from its trade or business and the shareholder's share of the factors from the S corporation from Table 2. Amounts in Table 1 should be sourced to the residency or commercial domicile of the shareholder.

Income

Line 1 — Ordinary income (loss) from trade or business activities

The amount reported on line 1, column (d) or column (e) is your share of the ordinary income (loss) from the trade or business activities of the S corporation. Generally, where you report this amount on Form 540, Form 540NR or Form 541 depends on whether or not the amount is from an activity that is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this S corporation or from any other source, report the line 1, column (d) or column (e) income on form FTB 3801.

If a loss is reported on line 1, column (d) or column (e) report the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

Line 2 — Net income (loss) from rental real estate activities

Generally, the income (loss) reported on line 2, column (d) or column (e) is a passive activity amount to all shareholders. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations do not apply to qualified investors in qualified low-income housing projects. The S corporation will have attached a schedule for line 2 to identify such amounts, if applicable. You will have to report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

Use the following instructions to determine where to enter a line 2 amount.

- If you have a loss on line 2, column (d) or column (e) (other than a qualified low-income housing project loss), enter this passive activity loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

Note: If you are a qualified investor reporting a qualified low-income housing project loss, report the California adjustment amount from column (c) directly on Schedule CA (540 or 540NR).

- If you have income on line 2, column (d) or column (e) and no passive losses, enter the California adjustment from column (c) on Schedule CA (540 or 540NR).

Line 3 — Net income (loss) from other rental activities

The amount on line 3, column (d) or column (e) is a passive activity amount for all shareholders.

- If line 3, column (d) or column (e) is a loss, report the loss on the applicable line of form FTB 3801.
- If income is reported on line 3, column (d) or column (e) and you have no passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR).

Line 4 — Portfolio income (loss)

Income (loss) referred to as "portfolio" income (loss) in these instructions is not part of a passive activity subject to the rules of IRC Section 469. Portfolio income includes income not derived in the ordinary course of a trade or business from interest, dividends, annuities or royalties and gain (loss) on the sale of property that produces these types of income or is held for investment. If you have amounts on Schedule K-1 (100S), line 4a through line 4f, report these amounts as follows:

- Line 4a, column (c) and/or column (e) — Report on Schedule CA (540 or 540NR), line 8 whichever column is applicable;
- Line 4b, column (c) and/or column (e) — Report on Schedule CA (540 or 540NR), line 9 whichever column is applicable;
- Line 4c, column (c) and/or column (e) — Report on Schedule CA (540 or 540NR), line 17 whichever column is applicable;
- Line 4d and line 4e, column (d) or column (e) — Report on Schedule D; and
- Line 4f, column (d) or column (e) — Report on the applicable schedule.

Caution: Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are therefore classified as portfolio income (loss). If, however, an amount reported on line 4d or line 4e, column (d) or column (e) is a passive activity amount, the S corporation should identify the amount.

The S corporation uses line 4f, column (d) or column (e) to report portfolio income other than interest, dividend, royalty and capital gain (loss) income. A statement will be attached to tell you what kind of portfolio income is reported on line 4f, column (d) or column (e).

Line 5 — Net gain (loss)

If the amount on line 5 relates to a rental activity, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on Schedule D-1, Sales of Business Property, line 2, column (g) or column (h), whichever is applicable. You do not have to complete the information called for in column (b) through column (f). Write "From Schedule K-1 (100S)" across these columns.
- If a gain is reported on line 5, column (d) or column (e) and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (h), and refer to "Passive Loss Limitations" in the instructions for Schedule D-1.
- If a loss is reported on line 5, column (d) or column (e) and it is a passive activity amount to you, refer to "Passive Loss Limitations" in the instructions for Schedule D-1. You will need to use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

Line 6 – Other income (loss)

Amounts on this line are other items of income, gain or loss not included on line 1 through line 5. The S corporation should give you a description of your share for each of these items.

Report loss items that are passive activity amounts to you on form FTB 3801.

Report income or gain items that are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses from any other source, also report the passive activity income or gain on form FTB 3801.

Line 6 items may include the following:

- S corporation gains from the disposition of farm recapture property (refer to Schedule D-1) and other items to which IRC Section 1252 applies;
- Recovery of bad debts, prior taxes and delinquency amounts (IRC Section 111). Report the amount from line 6, column (c), on Schedule CA (540 or 540NR), line 21 whichever column is applicable;
- Gains and losses from gambling (IRC Section 165(d));
- Any income, gain or loss to the S corporation under IRC Section 751(b) from a partnership. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain (loss). Report this amount on Schedule D-1, line 10; and
- Net gain (loss) from involuntary conversions due to casualty or theft. The S corporation will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, line 34, column (b)(i), column (b)(ii) and column (c).

Deductions

Line 7 – Charitable contributions

The S corporation will give you a schedule that shows which contributions were subject to the 50%, 30% and 20% limitations. For more information, refer to the federal Form 1040 instructions.

If there is an amount on Schedule K-1 (100S), line 7, column (c), enter this amount on Schedule CA (540 or 540NR), line 37.

Line 8 – Expense deduction for recovery property

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you may claim from all sources is \$13,000. The S corporation will give you information on your share of the cost of the S corporation's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments – Individuals, and federal Publication 534, Depreciating

Property Placed in Service Before 1987, for more information.

If the S corporation reported an EZ, LARZ or LAMBRA business expense deduction on this line from R&TC Sections 17266, 17267.2 or 17268 complete form FTB 3805Z, form FTB 3806 or form FTB 3807, to report your pro rata share.

Line 9 – Deductions related to portfolio income (loss)

Amounts entered on this line are the expenses (other than investment interest expense and expenses from a REMIC) paid or incurred to produce portfolio income. If you have an amount on Schedule K-1 (100S), line 9, column (c), enter this amount on Schedule CA (540 or 540NR), line 37. However, if any of the line 9 amount should not be reported on Schedule CA (540 or 540NR), the S corporation will identify that amount for you.

Line 10 – Other deductions

Amounts on this line are other deductions not included on line 7 through line 9. If there is an amount on Schedule K-1 (100S), line 10, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

Investment Interest

Line 11a and Line 11b

If the S corporation paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and the federal Publication 550, Investment Income and Expenses.

Line 11a – Interest expense on investment debts

Enter the amount from column (d) or column (e) on form FTB 3526 along with your investment interest expense from other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

Line 11b(1) and Line 11b(2) – Investment income and investment expenses

Use the column (d) or column (e) amounts on these lines to determine the amount to enter on form FTB 3526, line 4.

Caution: The amounts shown on line 11b(1) and line 11b(2) include only investment income and expenses included on line 4 and line 9 of this Schedule K-1 (100S). The S corporation should attach a schedule that shows you the amount of any investment income and expenses included in any other lines of your Schedule K-1 (100S). Use these amounts, if any, to adjust line 11b(1) and line 11b(2) to determine your total investment income and total investment expenses from this S corporation. Combine these totals with investment income and expenses from all other sources

to determine the amount to enter on form FTB 3526, line 4.

Tax Credits

The S corporation must provide you the information needed to compute a credit allowable on your return.

Line 12a – Low-income housing credit

Your share of the S corporation's low-income housing credit is shown on line 12a, column (d) or column (e). Any available credit is entered on form FTB 3521, Low-Income Housing Credit. To claim this credit, attach a copy of form FTB 3521 to your return.

Caution: You may not claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under Section 502 of the federal Tax Reform Act of 1986. Also, the passive activity credit limitations of IRC Section 469 may limit the amount of credit you may take. Get form FTB 3801-CR, Passive Activity Credit Limitations to figure the amount of credit that may be limited under the passive activity rules.

For more information, see the instructions for line 13.

Line 12b – Other credits related to rental real estate activities

If applicable, the S corporation may use this line, through an attached schedule, to give you the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

For more information, see the instructions for line 13.

Line 12c – Credits related to other rental activities

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to rental activities other than rental real estate activities.

For more information, see the instructions for line 13.

Line 13 – Other credits

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to a trade or business activity.

Credits that may be reported on line 12c or line 13 (depending on the type of activity they relate to) include but are not limited to:

- Enterprise zone hiring & sales or use tax credit (FTB 3805Z);
- Los Angeles Revitalization Zone (LARZ) hiring & sales or use tax credit (FTB 3806);
- Local Agency Military Base Recovery Area (LAMBRA) hiring & sales or use tax credit (FTB 3807);
- Research credit (FTB 3523); or
- Manufacturers' investment credit (FTB 3535).

Note: The at-risk limitations of IRC Section 465, the passive activity limitations of IRC Section 469 and the pass-through rules of IRC Section 1366 may limit the amount of credits that you may take. Credits on line 12 and line 13 may be passive activity credits to shareholders who do not materially participate.

Passive activity credits are limited to tax attributable to passive activities. If you do not materially participate in the activities of the S corporation, get form FTB 3801-CR, Passive Activity Credit Limitations, to determine the amount of the credit you may take.

Adjustments and Tax Preference Items

Line 14a through Line 14e

Use the information reported on line 14a through line 14e (as well as adjustments and tax preference items from other sources) to prepare Schedule P (540, 540NR or 541), Alternative Minimum Tax and Credit Limitations.

For more information, get federal Schedule K-1 (Form 1120S) instructions for Adjustments and Tax Preference Items.

Other State Taxes

Line 15a through Line 15e

You may claim a credit against your individual tax for your share of net income taxes paid by the S corporation to certain other states which either tax the corporation as an S corporation or do not recognize S corporation status. For purposes of this credit, net income taxes include your share of taxes on, according to, or measured by income.

Residents are taxed on their pro rata share of all income and generally receive a credit for taxes paid to other states. Nonresidents and part-year residents use column (e) for your pro rata share of California source pass-through income.

For more information, get California Schedule S, Other State Tax Credit.

Other Items

Line 16a through Line 19

Refer to the instructions for federal Schedule K-1 (1120S).

Line 20

The S corporation must issue a federal Form 1099-DIV to you for this distribution. Report this amount as a taxable dividend on your individual return.

Line 21

Reduce your basis in stock of the S corporation by the distributions on line 21. If these distributions exceed your basis in stock, the excess is treated as gain from the sale or exchange of property and is reported on Schedule D.

Line 22

If the line 22 payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan. See IRC Section 1367(b)(2) for information on reduction in basis of a loan and restoration of basis of a loan with a reduced basis. See federal Revenue Ruling 68-537, 1968-2 C.B. 372, for more information.

Supplemental Information

Line 23

The S corporation will provide supplemental information required to be reported to you on this line. If the S corporation is claiming tax benefits from an EZ, LARZ or LAMBRA it will give you your pro-rata share of (1) business income apportioned to the EZ, LARZ or LAMBRA, and (2) business capital gains and losses included in (1) on this line. Get form FTB 3805Z, FTB 3806 or FTB 3807 to claim any applicable credit or business expense deduction.

The S corporation may have provided an amount showing your proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances on Schedule K-1(100S), line 23. Legislation enacted in 1996 allows a **qualified taxpayer** to exclude from alternative minimum taxable income adjustments and items of tax preference attributable to any trade or business. A "qualified taxpayer" is defined as an individual, estate or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 from **all** trades or businesses that the taxpayer is an owner of or has an ownership interest in, in the amount of that taxpayer's proportionate interest in each trade or business.

"Aggregate gross receipts, less returns and allowances" means the sum of the gross receipts of the trades or businesses which you own and the proportionate interest of the gross receipts of the trades or businesses which you own and of pass-through entities in which you hold an interest.

"Proportionate interest" is defined as:

- In the case of a pass-through entity which reports a profit for the taxable or income year, your profit interest in the entity at the end of your taxable year.
- In the case of a pass-through entity which reports a loss for the taxable or income year, your loss interest in the entity at the end of your taxable year.
- In the case of a pass-through entity which is sold or liquidates during the taxable or income year, your capital account interest in the entity at the time of the sale or liquidation.

"Proportionate interest" includes an interest in a pass-through entity including a partnership, S corporation, RIC, REIT or REMIC.

For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120).

"Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

If the S corporation listed any credit recapture on this line, see your tax booklet for information on how to report the credit recapture.

Table 1

The income data contained in Table 1 is not reflected in column (e) because the source of such income must be determined at the shareholder level. The shareholder must make a determination whether the nonbusiness intangible income item is from a California source.

Net nonbusiness income is computed by subtracting related nonbusiness expenses from the nonbusiness income.

Table 2

If the shareholder and S corporation are engaged in a single unitary business, the shareholder's share of the S corporation's business income is entered on Table 2, Part A. The shareholder will then add that income to its own business income and apportion the combined business income.

The shareholder's share of the S corporation's payroll, property and sales data is in Table 2, Part C. The business income in Table 2, Part A is combined with the taxpayer's other business income from the unitary business. The apportionment numerator and denominator data are added to the appropriate numerator and denominator of the shareholder's payroll, property, and sales factors.

Instructions for Automatic Extension for Corporations and Exempt Organizations

1997

3539

General Information

If a corporation, including real estate investment trusts (REITs), real estate mortgage investment conduits (REMICs), regulated investment companies (RICs) and limited liability companies (LLCs) treated as corporations, or an exempt organization in good standing cannot file its California tax return by the original due date, a seven month extension will be allowed automatically without filing a written request. To qualify for the automatic extension, the corporation's or exempt organization's tax return must be filed by the extended due date. The corporation's powers, rights and privileges must not be suspended or forfeited by the Franchise Tax Board (FTB) or the California Secretary of State (SOS) as of the original due date. The extended due date for corporations is the 15th day of the tenth month following the close of the income year (fiscal year filers) or October 15, 1998 (calendar year filers). The extended due date for exempt organizations filing Form 199 or Form 109 is the 15th day of the twelfth month following the close of the taxable year (fiscal year filers) or December 15, 1998 (calendar year filers).

The extended due date for an employee's trust defined in IRC Section 401(a) and an IRA filing Form 109 is the 15th day of the 11th month after the end of the income year (fiscal year filers) or November 16, 1998 (calendar year filers).

However, to avoid late payment penalties and interest, 100% of the tax liability must be paid by the 15th day of the third month (fiscal year corporations), or the 15th day of the fifth month (fiscal year exempt organizations) following the close of the income year or March 16, 1998 (calendar year corporations), or May 15, 1998 (calendar year exempt organizations). Employees' trusts and IRAs must pay 100% of the tax liability by the 15th day of the 4th month after the end of the income year.

Complete the tax payment worksheet on Side 2 to see if additional tax is due. **Send in the voucher only if a payment is due.**

Save the completed worksheet as a permanent part of the corporation's or exempt organization's tax records along with a copy of the return.

Electronic Funds Transfer (EFT)

Corporations or exempt organizations that meet certain requirements must remit all of their payments through EFT rather than by paper checks. Corporations or exempt organizations that remit an estimated tax payment or extension payment in excess of \$20,000 or that have a total tax liability in excess of \$80,000 in any income year beginning on or after January 1, 1995, must pay through EFT. The FTB will notify corporations or exempt organizations that are subject to this requirement. If you are an EFT taxpayer, **DO NOT USE THIS FORM**. Those that wish to participate on a voluntary basis may do so. For more information, call 1-800-852-2753 or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

Where to File

If tax is due and the corporation is not required to use EFT, attach a check or money order for the tax due to form FTB 3539 and **mail only the voucher portion** with the payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0551

Penalties and Interest

Remember, an extension of time to file the tax return is not an extension of time to pay the tax. If the corporation or exempt organization fails to pay its total tax by the original due date, a late payment penalty plus interest will be added to the tax due. If the corporation or exempt organization does not file its return by the extended due date, or the corporation's powers, rights and privileges have been suspended or forfeited by the FTB or the California SOS, as of the original due date, the automatic extension will not apply and a late filing penalty plus interest will be assessed from the original due date of the return.

— DETACH HERE —

(Calendar year corporations — Due March 16, 1998)
(Employees' trust and IRA — Due April 15, 1998)
(Calendar year exempt organizations — Due May 15, 1998)

YEAR		Payment Voucher for Automatic Extension for Corporations and Exempt Organizations		CALIFORNIA FORM	
1997				3539	
For calendar year 1997 or fiscal year beginning <u>MM/DD/1997</u> , and ending <u>MM/DD/19YY</u> .					
California corporation number		Federal employer identification number		Tax due \$ <u> </u> .00	
Corporation/Exempt Organization name					
Address				Type of form filed.	
City				<input type="checkbox"/> Form 100 <input type="checkbox"/> Form 109 <input type="checkbox"/> Form 100S <input type="checkbox"/> Form 199	

IF NO PAYMENT IS DUE, DO NOT FILE THIS FORM
EFT TAXPAYERS, DO NOT USE THIS FORM

Payment Voucher 5

Combined Reports

If members of a combined unitary group have made or intend to make an election to file a Combined Unitary Group Single Return, only the key corporation designated to file the return should submit form FTB 3539. The key corporation must include payment of at least the minimum franchise tax for each corporation of the combined unitary group that is subject to the franchise tax in California.

If members of a combined unitary group intend to file separate returns with the FTB, each member must submit its own form FTB 3539 if there is an amount entered on line 3 of the worksheet.

Exempt Organizations

The due dates for corporations also apply to the filing of Form 100, California Franchise or Income Tax Return, by political action committees and exempt homeowners' associations.

Political action committees and exempt homeowners' associations that file Form 100 should **not** enter the minimum franchise tax on line 1 of the Tax Payment Worksheet below.

Form 199 Filers:

Form 199, California Exempt Organization Annual Information Return, requires a \$10 filing fee to be paid with the return on the original or extended due date.

Use form FTB 3539 **only** if paying the fee early. Enter the amount of the fee on line 3 of the Tax Payment Worksheet below.

How to Complete the Tax Payment Worksheet

- Line 1 -** Enter the total tentative tax, including the alternative minimum tax for the income year.
- If filing Form 100 or Form 100S, the tentative tax may not be less than the minimum franchise tax.
 - If the corporation paid the \$600 commencing tax as a qualified new corporation, but during the first income year gross receipts, less returns and allowances, are \$1 million or more or tax on net income exceeds \$800, the corporation must pay an additional \$200. Include this amount on line 1.
 - If filing Form 109, enter the amount of tax. Form 109 filers are not subject to the minimum franchise tax.

- Line 2 -** Enter the estimated tax payments, including prior year overpayment applied as a credit.

- Line 3 - Tax due.** If the amount on line 2 is more than the amount on line 1, the payments and credits are more than the tax. The corporation or exempt organization has no tax due. **DO NOT SEND THE PAYMENT VOUCHER.** The corporation or exempt organization will automatically qualify for an extension if the tax return is filed by the extended due date. If the amount on line 1 is more than the amount on line 2, then the corporation's or exempt organization's tax is more than its payments and credits. The corporation or exempt organization has tax due.

Subtract line 2 from line 1. Enter this amount on line 3 below and on form FTB 3539.

TAX PAYMENT WORKSHEET FOR YOUR RECORDS

1	Total tentative tax. Include alternative minimum tax if applicable. See instructions	1		
2	Estimated tax payments including prior year overpayment applied as a credit	2		
3	Tax Due. If line 2 is more than line 1, see instructions. If line 1 is more than line 2, subtract line 2 from line 1. Enter the result here and on form FTB 3539	3		

How To Get California Tax Information

Where To Get Income Tax Forms

By Internet – If you have Internet access, you may download, view, and print 1994, 1995, 1996 and 1997 California income tax forms and publications. Our Internet address is:

<http://www.ftb.ca.gov>

By phone – Use F.A.S.T. to order the 1997 California tax forms listed to the right. To order a form on the list:

- Call 1-800-338-0505, from within the United States; or
- 1-916-845-6600, from outside the United States (not toll-free)
- Select bank and corporations income tax form requests.
- Enter the three-digit code shown to the left of the form title when you are instructed to do so.

We will send you two copies of each tax form and one copy of each set of instructions. Please allow two weeks to receive your order. If you live outside California please allow three weeks to receive your order.

For prior year California tax forms, call our toll-free number listed under "General Toll-Free Phone Service."

Letters

We can serve you by phone if you call us for information to complete your California income tax return, or to find out about your tax refund. However, you may want to write to us if you are replying to a notice we sent you, or to get a written reply. If you write to us, be sure to include your California Corporation number or federal employer identification number, your daytime and evening telephone numbers and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0540

We will acknowledge receipt of your letter within eight to ten weeks. In some cases, we may need to call you for additional information.

Your Rights As A Taxpayer

Our goal at the FTB is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program and how you can request written advice from the FTB on whether a particular transaction is taxable. You can order FTB Pub. 4058 by calling or writing the FTB using the address above for letters.

General Toll-Free Phone Service

Our general toll-free phone service is available from 7:00 a.m. until 8:00 p.m. Monday through Friday from January 2 through April 15, 1998. The best times to call are between 7:00 a.m. and 10:00 a.m. and between 6:00 p.m. and 8:00 p.m. Service is also available on Saturday, April 4 and April 11, from 8:00 a.m. until 5:00 p.m. After April 15, service is available Monday through Friday, from 8:00 a.m. until 5:00 p.m.

From within the United States 1-800-852-5711
From outside the United States 1-916-845-6500 (not toll-free)

For hearing impaired with TDD 1-800-822-6268
For federal tax questions, call the IRS at 1-800-829-1040

Asistencia Bilingüe en Español

Para obtener servicios en Español y asistencia para completar su declaración de impuestos/formularios, llame al número de teléfono (anotado arriba) que le corresponde.

In person – Most libraries, post offices and banks provide free California tax booklets during the filing season. Many libraries and some quick print businesses have forms and schedules for you to photocopy (you may have to pay a nominal fee). Note that employees at libraries, post offices, banks and quick print businesses cannot provide tax information or assistance.

By mail – Write to: TAX FORMS REQUEST UNIT, FRANCHISE TAX BOARD, PO BOX 307, RANCHO CORDOVA CA 95741-0307.

California Tax Forms and Publications

- ☐ 817 California Corporation Tax Forms and Instructions. This booklet contains:
Form 100, California Corporation Franchise or Income Tax Return
- ☐ 821 Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations
- ☐ 822 FTB 3885, Depreciation/Amortization
- ☐ 807 FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations
- ☐ 816 California S Corporation Tax Forms and Instructions. This booklet contains:
Form 100S, California S Corporation Franchise or Income Tax Return
- ☐ 823 Schedule B(100S), S Corporation Depreciation and Amortization
Schedule C (100S), S Corporation Tax Credits
Schedule H (100S), Dividend Income
- ☐ 824 Schedule D (100S), Capital Gains and Losses and Built-In Gains
- ☐ 825 Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits
- ☐ 826 FTB 3830, S Corporation's List of Shareholders and Consents
- ☐ 814 Form 109, Exempt Organization Business Income Tax Return
- ☐ 818 Form 100-ES, Corporation Estimated Tax
- ☐ 813 Form 100X, Amended Corporation Return
- ☐ 815 Form 199, Exempt Organization Return
- ☐ 819 Schedule R, Apportionment and Allocation of Income
- ☐ 812 FTB Pub. 1038, Guide for Corporations Dissolving, Withdrawing or Merging
- ☐ 809 FTB Pub. 1060, Guide for Corporations Starting Business in California
- ☐ 810 FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report
- ☐ 827 Form 100-WE, Water's-Edge Booklet
- ☐ 829 FTB 3564, Authorization of Agent Under Revenue and Taxation Code Section 19141.6
- ☐ 820 FTB Pub. 1068, Exempt Organizations Requirements for Filing Returns and Paying Filing Fees
- ☐ 802 FTB 3500, Exemption Application
- ☐ 808 FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations
- ☐ 803 FTB 3555, Request for Tax Clearance
- ☐ 804 FTB 3557, Application for Revivor
- ☐ 811 FTB 3560, S Corporation Election or Termination/Revocation
- ☐ 806 FTB 5806, Underpayment of Estimated Tax by Corporations
- ☐ 800 FTB Pub. 1028, Guidelines for Homeowners' Associations
- ☐ 801 FTB Pub. 1075, Exempt Organizations – Guide for Political Organizations
- ☐ 805 FTB 3833, Application for Transfer of S Corporation Overpayments to Shareholders
- ☐ 830 FTB Pub. 1062, Guide for K-1 (565) Filing Electronic Data
- ☐ 831 FTB 565, Partnership Return of Income
- ☐ 832 FTB 3555A, Request for Tax Clearance for Exempt Organizations



F.A.S.T. Toll-Free Phone Service

Call **Fast Answers** about **State Taxes**, the F.A.S.T. toll-free phone service you can use to:

- Get recorded answers to many of your questions about California taxes; and
- Order current year California tax forms.

F.A.S.T. is available in English and Spanish to callers with touch-tone telephones.

When Is F.A.S.T. Available?

To answer your questions, F.A.S.T. is available 24 hours a day, seven days a week. To order forms F.A.S.T. is available from 6:00 a.m. to 10:00 p.m., seven days a week, except state holidays.

How To Use F.A.S.T.

Have paper and pencil handy to take notes.

Call from within the United States 1-800-338-0505

Call from outside the United States (not toll-free) . . . 1-916-845-6600

Follow the recorded instructions and enter the three-digit code when you are instructed to do so.

To Order Forms

Refer to Where to Get Tax Forms on page 39.

To Get Information

If you need an answer to any of the following questions, call 1-800-338-0505, select general tax information, follow the recorded instructions and enter the three-digit code when you are instructed to do so.

Code-Filing Assistance:

- 715 – If my actual tax is less than the minimum franchise tax, what figure do I put on line 23 of Form 100?
- 717 – What are the tax rates for corporations?
- 718 – How do I get an extension of time to file?
- 722 – When do I have to file a short-period return?
- 730 – May I claim net operating losses in the first year?
- 731 – Are corporations allowed to use MACRS/ACRS or Section 179 expensing?
- 733 – Can the prepayment to the Secretary of State be applied to my last year of business?
- 734 – What is the difference between franchise tax and income tax?

S Corporations

- 704 – Is an S corporation subject to the minimum franchise tax?
- 705 – Are S corporations required to file estimate payments?
- 706 – What forms do S corporations file?
- 707 – The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?
- 708 – Where do S corporations make the state tax adjustment on Schedule K-1(100S)?

Exempt Organizations

- 709 – How do I get tax exempt status?
- 710 – Does an exempt organization have to file Form 199?
- 735 – How can an exempt organization incorporate without paying corporation fees and costs?
- 736 – I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

Minimum Tax and Estimate Tax

- 711 – Why can't I claim my prepayment tax as credit or estimate payment on my return?
- 712 – What is the minimum franchise tax?
- 714 – I'm not doing business; do I have to pay the minimum franchise tax?
- 716 – When are my estimate payments due?

Billings and Miscellaneous Notices

- 723 – I received a bill for \$250. What is this for?
- 728 – Why was my corporation suspended?
- 729 – Why is my subsidiary getting a request for a return when we file a combined report?

Tax Clearance

- 724 – How do I dissolve my corporation?
- 725 – What do I have to do to get a tax clearance?
- 726 – How long will it take to get a tax clearance certificate?
- 727 – My corporation was suspended/forfeited. Can I still get a tax clearance?

Miscellaneous

- 700 – Who do I need to contact to start a business?
- 701 – I need a state ID number for my business. Who do I contact?
- 702 – Can you send me an employer's tax guide?
- 703 – How do I incorporate?
- 719 – How do I properly identify my corporation when dealing with the Franchise Tax Board?
- 720 – How do I change my corporation name?
- 721 – How do I change my accounting period?
- 732 – What is the water's-edge election?
- 737 – Where do I send my payment?
- 738 – What is electronic funds transfer?
- 739 – How do I get a copy of my state corporate tax return?

